

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

| | | | |
|--|----------------------------------|--|---------------------|
| Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other | | Local Unit Name City of Portage | County Kalamazoo |
| Fiscal Year End June 30, 2006 | Opinion Date November 8, 2006 | Date Audit Report Submitted to State December 8, 2006 | |

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

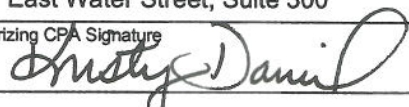
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

| | | | |
|--|-------------------------------------|--|-------------|
| We have enclosed the following: | Enclosed | Not Required (enter a brief justification) | |
| Financial Statements | <input checked="" type="checkbox"/> | | |
| The letter of Comments and Recommendations | <input type="checkbox"/> | | |
| Other (Describe) | <input type="checkbox"/> | | |
| Certified Public Accountant (Firm Name) BDO Seidman, LLP | | Telephone Number (269) 382-0170 | |
| Street Address 211 East Water Street, Suite 300 | | City Kalamazoo | State MI |
| Zip 49007 | | License Number 1101020549 | |
| Authorizing CPA Signature  | | Printed Name Kristy Daniel | |



COMPREHENSIVE ANNUAL FINANCIAL REPORT

of the
City of Portage,
Michigan

For Fiscal Year Ending June 30, 2006



City of Portage, Michigan
Comprehensive Annual Financial Report
For the Fiscal Year Ended
June 30, 2006

Prepared by:

Finance Department

CITY OF PORTAGE, MICHIGAN
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2006

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November 8, 2006

To the Honorable Mayor, members of the City Council, and the Citizens of the City of Portage:

The comprehensive annual financial report of the City of Portage for the fiscal year ended June 30, 2006 has been completed. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the city's management. To the best of our knowledge and belief the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds and component units of the city. All disclosures necessary to enable the reader to gain an understanding of the financial activities of the city have been included.

The comprehensive annual financial report is presented in three sections: introductory, financial, and statistical. The introductory section includes this transmittal letter, the city organizational chart and a list of principal officials. The financial section includes the management's discussion and analysis, the financial statements and the combining and individual fund financial statements and schedules, as well as the auditors' report on the financial statements and schedules. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis. The statistical section has been expanded in this year's CAFR as required by Government Accounting Standards Board Statement 44 "Economic Condition Reporting: The Statistical Section."

This report includes all funds and account groups of the city. The city provides a full range of municipal services. These services include police and fire protection; water and wastewater services; the construction and maintenance of highways, streets, and other infrastructure; recreation activities and cultural events. In addition to the general activities of the city, the Building Authority, the Downtown Development Authority, and the Local Finance Development Authority are blended into the reporting entity. This report also presents the Economic Development Corporation as a discrete component unit.

Generally accepted accounting principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to compliment the MD&A and should be read in conjunction with it. The City of Portage's MD&A can be found immediately following the report of the independent auditors.

LOCATION AND CHARACTER

The City of Portage, which is situated in the southwest part of the State of Michigan and located halfway between Chicago and Detroit, covers an area of 35.2125 square miles. Almost 31 percent of the area within the city is used for residential purposes, with most of this developed property devoted to single family dwellings.

ECONOMIC CONDITION AND OUTLOOK

The City of Portage is the unit of government in Kalamazoo County with the largest Assessed Value (regular tax roll). The state equalized value of real and personal property including tax abatements has increased from \$348,055,600 in 1980, to \$799,757,900 in 1990, to \$2,150,123,100 for the fiscal year ended June 30, 2006. The taxable value for the year beginning July 1, 2006 increased approximately 4.2 percent over the prior year. The City of Portage unemployment rate for September 2006 was 4.0 percent, while the September unemployment rate for Kalamazoo County as a whole was 5.3 percent.

Portage has a well-balanced and diversified economy. Residential use accounts for 55 percent of the property value, industrial 20 percent and commercial 25 percent. Employment is also well balanced which is characterized by a high degree of manufacturing (21.3 percent of total employment), wholesale and retail trade (16.7 percent), and service activity (40.1 percent). Based on the 2002 census, the number of employed Portage residents was 23,566; yet 35,192 jobs existed within Portage, making Portage a net importer of jobs for residents from Kalamazoo County and beyond. By the year 2025, the number of jobs offered in the City of Portage is expected to increase to 37,928 (2002 Portage Comprehensive Plan).

The Pfizer Corporation, the city's largest taxpayer, has manufacturing, packaging and office facilities located in the City of Portage. Construction activities for the Pfizer complex in Portage continue with additions, modification and new buildings over the past year totaling an investment of \$60 million. It is anticipated that another \$100 million will be spent on improvements to the main manufacturing and packaging plant in 2007.

Stryker Corporation constructed a 433,000 square-foot medical-products manufacturing facility in the City of Portage that was completed in 2005. This facility, at the corner of Sprinkle Road and East Centre Avenue, is the primary Stryker Medical Division manufacturing facility. This manufacturing facility resulted in the retention of 80 existing jobs at the company and the addition of approximately 65 new jobs according to Stryker Corporation representatives. The Stryker Medical division focuses on the production of hospital and emergency service beds and stretchers. Additional manufacturing, warehousing and administrative facilities are located throughout Portage making Stryker the city's second largest taxpayer.

In October 2004, the City of Portage Planning Commission approved the site plan for an estimated \$30 million dollar expansion at the Stryker Instruments facility located at 4100 East Milham Avenue. The new approximate 200,000 square foot manufacturing facility at the southeast corner of East Milham Avenue and South Sprinkle Road will build upon the success of the surgical instruments division. The Stryker Instruments division is the company's primary location for the production of replacement hips and joints, along with orthopedic surgical instruments such as medical drills, saws and micro-powered tools. These facilities located in Portage are part of a total facilities expansion and renovation project with a total estimated investment of \$62 million and an estimated total of 225 new jobs and 1,600 jobs retained according to communication from Stryker.

The continued diversification and growth of the local economy and tax base is viewed as essential to the community. In an effort to ensure a healthy economy, the City of Portage announced and implemented four major initiatives during the past ten years. These four initiatives are listed below:

1. ***1996 Industrial Development Initiative:*** an investment of nearly \$2 million in public infrastructure improvements to open up more than 100 acres of land for full-service industrial sites within industrial park settings. Several industrial facilities including Federal Express, Summit Polymers, Business Cards Plus, Avtech Laboratories, Idea, Inc., Kalamazoo Machine

Tool, Quality Air Service, among others have constructed new facilities as a direct result of this city initiative. Private investment totals \$34.3 million to date.

2. **1998 Community Investment Initiative:** the combined investment of almost \$7 million from local, state and federal sources in important infrastructure projects within the first city Downtown Development Authority (DDA) district, development of the 50 acre Milham Business/Technology Park and the reconstruction of Shaver Road as a boulevard. Businesses including Gander Mountain, Meijer, Inc., Bennigan's Restaurant, Lowe's Home Improvement Center and Hooters Restaurant have also constructed new facilities as a result of the Community Investment Initiative. Businesses have invested approximately \$87.4 million to date.
3. **1999 Commerce Square Enhancement Initiative:** focused on enhancements to the South Westnedge Avenue commercial corridor including roadway improvements to South Westnedge Avenue, Mall Drive and Romence Road/Romence Road Parkway. These major roadway improvement projects will ensure the continued success of the central business area by providing safe and convenient access for patrons and employees. The Commerce Square Enhancement Initiative stimulated redevelopment of the northwest corner of South Westnedge Avenue and West Milham Avenue. Several aging and vacant buildings previously occupied this area, one of the busiest intersections in Kalamazoo County. These aging and vacant buildings have been razed and replaced with new facilities for Bed Bath and Beyond, Panera Bread, Babies'R'Us, and Consumers Credit Union. The Commerce Square Enhancement Initiative also included a major project to improve water quality associated with local wetlands and Consolidated Drain No. 1 and, at the same time, reclaim land for development that was previously used for storm water retention. The total level of public investment amounted to more than \$9 million. The Shoppes at Romence Village is a 150,000 square foot retail center anchored by D&W Food Center and Stein Mart, with additional retailers Great Clips, Tuesday Morning, Renaissance Home & Garden, Mirage Tanning Salon and restaurants Los Amigos, Z-Café, and Jets Pizza completed in subsequent phases of this development project. To date, approximately \$65.5 million in private investment has occurred.
4. **The South Westnedge Avenue Enhancement Project:** a major corridor improvement program from Milham Avenue to Kilgore Road. The project was initiated in 2004/2005 to coordinate with and facilitate the improvement of the I-94/South Westnedge Avenue interchange and associated widening of South Westnedge Avenue from Dawnlee Avenue to Trade Center Way by the Michigan Department of Transportation. The project includes street widening, new street construction and property acquisition.

South Westnedge Avenue is the most important north-south major street in Kalamazoo County and provides access to the major shopping areas in the city. Considerable new development and redevelopment is occurring on the South Westnedge Avenue corridor especially between Kilgore Road and Milham Avenue. The planned MDOT improvement to the I-94/South Westnedge Avenue interchange and related freeway improvements will necessitate associated widening from Kilgore Road to Milham Avenue.

The success of these economic development initiatives is significant. Seventy-three businesses and industries have either expanded existing facilities in Portage, have been retained within Portage or have established new facilities within the community. In total to date, the level of investment is approaching \$187.2 million in estimated market value, with an estimated 3,218 added jobs. Although the City of Portage allocated significant local resources to ensure the success of these important economic development initiatives, the return on investment is significant.

The initial economic impacts associated with the private sector projects are very good news for the community in terms of diversifying the tax base and adding job opportunities for area residents. It is also important to underscore that these initiatives were accomplished without a tax increase and with a combination of local tax resources, private sector participation as well as state and federal funds.

The continued expansion of existing industrial facilities within the Sprinkle Road Industrial Corridor has also been significant. Major building renovations and/or additions are currently underway or have been announced by the Stryker Corporation, among others. The continued investment in the improvement of existing industrial facilities further indicates a healthy and growing economy.

Portage is also a major retail center for Southwest Michigan. The Crossroads Mall, a regional shopping center of more than 800,000 square feet, has approximately 100 tenants including Macy's, J.C. Penney & Company, and Sears Roebuck & Company. Southland Mall is another major retail mall in the city. The nearly 300,000 square foot retail center includes Old Navy Apparel, Circuit City, Kohl's Department Store, Barnes & Noble Book Store, J.C. Penney Home Store and T.J. Maxx, among other stores. Several additional major retailers are located within Portage including: Meijer, Inc., Home Depot, Lowe's, Target, Best Buy, K-Mart Corporation, and Menards Home Improvement Center. Two other retail shopping centers, the Portage Crossings and the Carillon Center, have a combined building area of 308,000 square feet. Additionally, Sam's Club wholesale club constructed a new, larger (135,000 square foot) facility on South Westnedge Avenue at Romence Road that was opened in early 2006. The estimated employment of Portage retail trade establishments in 2002 was 9,500. The total retail area in the main South Westnedge commercial corridor is approximately 4 million square feet with a 98 percent occupancy rate as of November 2005.

Other projects which have had a positive impact on the local economy include the extension of the Romence Parkway to Portage Road in 2000, the creation of a Brownfield Redevelopment Authority in 2001 and several quality of life enhancements. The extension of Romence Parkway to Portage Road had a major impact on traffic flow in the community by providing an essential east-west link in the major thoroughfare system with improved access to the commercial corridor and to industrial centers in the community. East Milham Avenue from Oakland Drive to Lovers Lane, and Centre Avenue from Portage Road to Sprinkle Road have been widened. These improvements afford numerous economic development benefits, and provide improved roadway access and city utilities to Pfizer, Inc.

The creation of a Brownfield Redevelopment Authority in 2001 has provided an important economic incentive for the environmental clean-up and redevelopment of the former Portage Steel site located on West Centre Avenue. Redevelopment of this property, which was abandoned for several years, with an approximate \$10 million retail and office complex is a significant benefit to the city and to the other taxing jurisdictions. This ongoing redevelopment project provides an expanded tax base and additional job opportunities (estimated to be 200-250) for area residents and is a significant economic development initiative within the area.

Quality of life for Portage residents is a major focus. Several major enhancement projects have recently implemented to promote recreation and healthy lifestyles for citizens. The Northwest Portage Bikeway is a two-mile non-motorized trail that serves the most heavily populated quadrant of the community and connects to school, park and commercial facilities. The recently completed Liberty Park in the Portage City Centre was the result of an environmental and economic development initiative. This urban park features stunning floral displays, a boardwalk along Portage Creek and a waterfall in addition to cleaning polluted storm water runoff from the area. Through a federal grant, new development at South Westnedge Park includes an in-line

hockey rink, soccer field and 10,000 square foot concrete skate park. The skate park has drawn state-wide acclaim for the unique features offered and is very popular for area youth and young adults. Veterans Memorial Park with a landscaped flag display is a tribute to those who have served and currently serve in the United States Military. This joint project with local veteran organizations is a focal point for the region. The Millennium Park Ice Rink continues to be a major community recreational destination site. This outdoor refrigerated surface was the first in southwest Michigan. With a free-form design, thousands of area residents skate “under the stars” during the winter season.

There are several area and regional commercial bank branches and thrift institutions within the city, which serve the banking needs of the community and its residents. These include: Comerica, J. P Morgan Chase, National City, Fifth Third Bank, Flagstar Bank, LaSalle Bank, Huntington Bank, Portage Commerce Bank (headquartered in Portage), Keystone Community Bank, Chemical Bank – Shoreline, Wells Fargo and Republic Bank.

Transportation needs are served by United, American, Comair, Delta and Northwest airlines through the Kalamazoo-Battle Creek International Airport; several bus services; and railroads. Two major highways, Interstate 94 and U.S. 131 intersect within the City of Portage, providing a major “crossroads” which continues to promote growth and development. The Michigan Department of Transportation has initiated the design stage to widen I-94 through the City of Portage. Completion of this important highway improvement project is expected by 2015-17. The City of Portage is 152 miles from Detroit on I-94, 148 miles from Chicago on I-94, and 245 miles from Indianapolis via I-94 and I-69, and so has access to 65 percent of the market population of the U.S. within 500 miles.

MAJOR INITIATIVES

For the Year.

The 2005/2006 budget emphasized the areas of Transportation and Quality of the Environment.

- Transportation – Lovers Lane Boulevard, Kilgore Road to East Milham Avenue: Widen the existing two-lane roadway to a four-lane boulevard section from Kilgore to East Milham Avenue to include concrete curbs and gutters, storm drainage, new asphalt pavement, underground utilities, raised medians and landscaping. The South Westnedge Enhancement Project is a major corridor improvement program from Milham Avenue to Kilgore Road in anticipation of the I-94 widening by the Michigan Department of Transportation. The project includes street widening, new street construction and property acquisition. Shaver Road/West Centre Avenue intersection will be improved by widening eastbound Centre Avenue and southbound Shaver Road by adding separate right turn lanes to accommodate right turn movements. Pavement widening and new curbs and gutters will be installed. This project includes property acquisition, traffic signal modifications, storm sewer adjustments and pavement markings. Engineering and design are completed with construction planned for the spring of 2007.
- Quality of the Environment – Sewer main replaced of approximately 2,000 feet on Lovers Lane from East Milham Avenue to 300 feet north of Kingsbury Drive and sewer main additions for Lansing Avenue from Gertrude Drive to Linneman Avenue and for Gertrude Avenue from Ramona Avenue to south of Lansing Avenue. Continued the programs for maintenance of the existing stormwater retention basins and to disconnect or improve direct stormwater discharges to the Portage Creek, Davis Creek, and Gourdneck Creek watershed.

FINANCIAL INFORMATION

The City Administration is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the city are protected from loss, theft or misuse, and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, though not absolute assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Budgeting Controls. The city maintains budgetary controls through its financial management information system. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the governing body of the city. Activities of the General Fund, Special Revenue Funds, and Debt Service Funds are included in the annually appropriated budget. Project-length financial plans are adopted for the Capital Improvement Funds. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established by activity or project within the individual funds. The city also maintains an encumbrance accounting system as one technique of accomplishing budgetary control.

As demonstrated by the statements and schedules included in the financial section of this report, the city continues to meet its responsibility for sound financial management.

Please see the section titled Management's Discussion and Analysis which follows the auditor's opinion for additional information relating to fiscal year 2005/2006.

Tax collections were 98.5 percent of the tax levy. The County of Kalamazoo has established a Delinquent Tax Revolving Fund and pays the city for all real property taxes returned as delinquent to the County Treasurer as of March 1 of each year.

General Fund Balance. The total fund balance of the General Fund increased by \$337,816 in 2005/2006. In 1985 City Council established an intent that the General Fund fund balance be at least 13 percent of General Fund expenditures including transfers. The total General Fund fund balance at June 30, 2006 was \$4,413,936 or 20 percent of actual 2005/2006 expenditures including transfers.

The city's general obligation bonding is rated at AA by Standard & Poor's. This solid rating has the effect of reducing borrowing costs, and is another indicator of the financial viability of the city and community.

Enterprise Operations. The city enterprise operations are comprised of the Water and Sewer Funds. At June 30, 2006, the Sewer and Water Funds had net asset value balances of \$47,280,524 and \$16,970,186 respectively. Utility financial soundness is exemplified by a cash balance of \$2,554,726 at June 30, 2006. Annual rate reviews ensure continued financial soundness of the utility system.

Cash Management. Cash on hand is invested in obligations of the U.S. Government and its agencies, commercial paper, bankers' acceptances, certificates of deposit from banks and pooled cash and investment money market funds as permitted by State law and city policy. The investment policy was revised by City Council in January 2005 requiring benchmark comparisons for all investments and limiting the term of allowable investments. The average yield on

investments for the year ended June 30, 2006, excluding the Pension Trust Fund, was 3.68 percent (compared to an average of 2.39 percent for the 2004/2005 fiscal year). Interest rates ranged between a monthly high of 4.13 percent in May 2006 to a low of 2.941 percent in July 2005.

Risk Management. As of June 30, 2006, the city participates in a public entity risk pool, the Michigan Municipal Risk Management Authority pool, for insurance coverage for liability, auto, crime and property damage risks.

OTHER INFORMATION

Independent Audit. State statutes require an annual audit by independent certified public accountants. The accounting firm of BDO Seidman was selected by the city. The auditors' report on the basic financial statements and combining and individual fund statements and schedules is included in the financial section of this report.

Awards. The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the city for its comprehensive annual financial report for the fiscal year ended June 30, 2005. This was the twentieth consecutive year that the city has received this award. The Certificate of Achievement recognizes conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, the City of Portage published an easily readable and organized comprehensive annual financial report that conforms to program standards. This report satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. It is believed that the current comprehensive annual financial report continues to meet the Certificate of Achievement program requirements, and will be submitted to the GFOA to determine eligibility for another certificate.

In addition, the city also received the GFOA Award for Distinguished Budget Presentation for the annual budget for the fiscal year 2006/2007. In order to qualify for the Distinguished Budget Presentation Award, the city budget document was judged to be proficient as a policy document, a financial plan, an operations guide and a communication device. This was the twentieth consecutive year the City of Portage received this award.

Acknowledgments. This comprehensive annual financial report indicates the excellent financial condition of the City of Portage at June 30, 2006. The preparation of this report could not have been accomplished without the dedicated services of the Finance Department staff. Credit also goes to the Portage City Council for interest and support in planning and conducting the operations of the government in a responsible and progressive manner.

Sincerely,



Maurice S. Evans
City Manager



Daniel S. Foecking
Finance Director

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to City of Portage for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2005. This was the twentieth consecutive year that the government has received this prestigious award. In order to be awarded a Certificate of Achievement, the government published an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Portage,
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Carla E. Perry

President

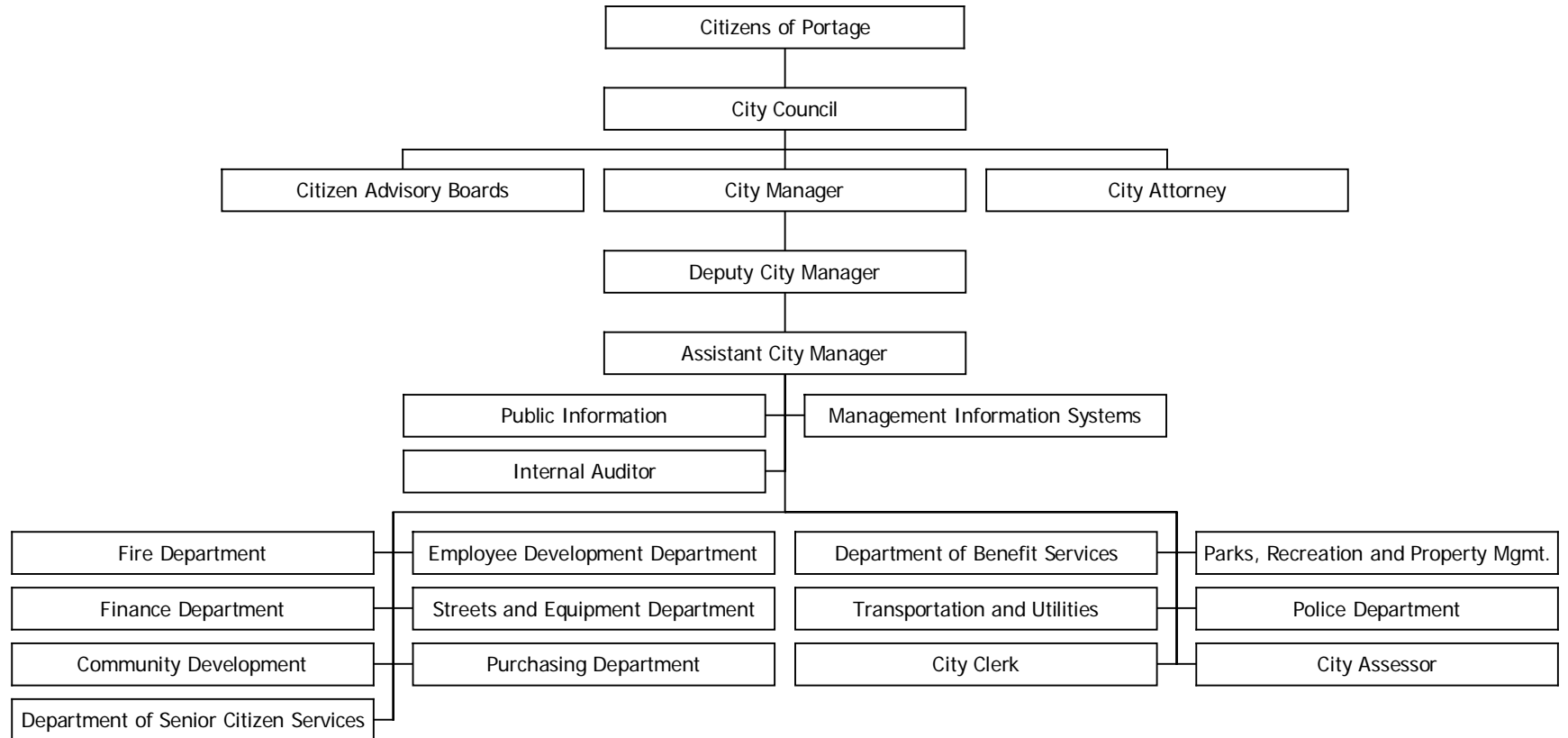
Jeffrey R. Enen

Executive Director

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.



City of Portage Organizational Chart



CITY OF PORTAGE, MICHIGAN
List of Elected and Appointed Officials
June 30, 2006

Elected Officials

| | |
|-------------------|---------------------|
| Mayor | Peter J. Strazdas |
| Mayor Pro Tempore | Ted W. Vliek, Sr. |
| Council Member | Larry DeShazor |
| Council Member | Margaret E. O'Brien |
| Council Member | Claudette Reid |
| Council Member | Ed Sackley |
| Council Member | Terry R. Urban |

Appointed Officials

| | |
|---|--------------------|
| City Manager | Maurice S. Evans |
| Deputy City Manager | Brian B. Bowling |
| Assistant City Manager | Sean P. McBride |
| Assistant City Manager for Information Technology | Devin C. Mackinder |
| City Attorney | Randall Brown |
| City Clerk | James R. Hudson |
| Assessor | James C. Bush |
| Benefit Services Director | Patricia Thompson |
| Community Development Director | Jeffery Erickson |
| Employee Development Director | John R. Boulis |
| Finance Director | Daniel S. Foecking |
| Fire Chief | Randolph B. Lawton |
| Parks and Recreation Director | William M. Deming |
| Police Chief | Richard J. White |
| Purchasing Director | Robert Luders |
| Senior Citizen Services Director | Josephine Arnold |
| Streets and Equipment Director | Jack G. Hartman |
| Transportation and Utilities Director | G. Dallas Williams |



BDO Seidman, LLP
Accountants and Consultants

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Kalamazoo, Michigan 49007
Telephone: (269) 382-0170
Fax: (269) 345-1666

Independent Auditors' Report

Honorable Mayor and
Members of the City Council and City Manager
City of Portage
Portage, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Portage (the City), as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements, as listed in the accompanying table of contents. These basic financial statements are the responsibility of the management of the City. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2006, and the respective changes in financial position and cash flows of its proprietary fund types thereof and the respective budgetary comparisons for the General Fund, Major Streets Fund, and Local Streets Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2006, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



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Accountants and Consultants

Management's Discussion and Analysis on Pages 5 through 15 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section and combining and individual nonmajor fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City. Such information, except for the introductory section and portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BDO Seidman, LLP

Certified Public Accountants

November 8, 2006



Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Governmental Auditing Standards*

Honorable Mayor and
Members of the City Council and City Manager
City of Portage
Portage, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Portage (the City), as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 8, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



BDO Seidman, LLP
Accountants and Consultants

We noted certain matters that we reported to management of the City in a conference memorandum dated November 8, 2006.

This report is intended solely for the information and use of the City Council, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BDO Seidman, LLP

Certified Public Accountants

November 8, 2006

This section of the City of Portage's (the City) Comprehensive Annual Financial Reports presents a narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information that has been furnished in the letter of transmittal, and the City's financial statements that follow this section.

Financial Highlights

The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$107,986,281 dollars (net assets). Of this amount, \$21,483,613 (unrestricted net assets) may be used to meet the government's ongoing obligations to its citizens. Unrestricted fund balances for the City as a whole total \$21,483,613 or 42.4% of primary government expenses, including transfers, of \$50,630,735.

At the close of the current fiscal year, the unrestricted fund balance for the general fund was \$3.3 million or 15% of total general fund expenditures, including transfers, of \$22,139,011, while undifferentiated fund balance is 20% of total expenditures.

The City's total long-term obligations increased by \$5,590,683 after scheduled payments, during the fiscal year ended June 30, 2006. Debt, compensated absences, and retiree health and pension liabilities for governmental activities increased by \$5,405,896 and by \$184,787 for business-type activities. Business-type debt is self-supporting and does not rely on tax revenues for repayment.

The upshot of the foregoing is that the City has been able to sustain a savings plan, evidenced by increases in unrestricted fund balance, to provide funding for future years infrastructure needs and as a hedge against continued declines in state and federal revenues. The increase in long-term obligations reflects debt issued to maintain quality City infrastructure, and the recognition of comprehensive benefit commitments for which funding is being set aside.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements, which consist of three components:

- Government-wide financial statements,
- Fund financial statements, and
- Notes to the financial statements.

a. Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner comparable to a private-sector business. The two government-wide financial statements are, as follows:

- The **statement of net assets** presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets.
- The **statement of activities** presents information showing how the City's net assets changed during the most recent fiscal year. All changes of net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, such as revenues pertaining to uncollected taxes and expenses pertaining to future general obligation debt payments. The statement includes the annual depreciation for infrastructure and governmental assets.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include

general government, public safety, streets and highways, and parks and facility management. The business-type activities of the City include the water and sewer utilities.

b. Fund Financial Statements

The fund financial statements are designed to report information about groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into the following three categories: governmental, proprietary and fiduciary funds. Within the governmental and proprietary categories, the emphasis is on the major funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are reported in governmental funds, which focus on how cash and other financial assets can readily be converted to available resources and on the available balances left at the year-end. This information may be useful in determining what financial resources are available in the near future to finance the City's programs. Other funds are referred to as nonmajor funds and are presented as summary data.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented in the government-wide statements. In addition to the governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balance, separate statements are provided that reconcile between the government-wide and fund level statements.

The City's general fund is considered a major fund, and information is presented separately in the governmental fund balance sheet and statements of revenues, expenditures and changes in fund balances. In addition to the other major governmental funds (special assessment, capital improvement, major and local streets, revolving loan, and Local Development Finance Authority) the City maintains several individual governmental funds organized according to their type: special revenue funds, debt service funds, and permanent funds. Data from these governmental funds are combined into a single column labeled nonmajor governmental funds. Individual fund data for the funds are provided in the form of combining statements in the supplementary section of this report.

Proprietary funds. Proprietary funds are generally used to account for services for which the City charges customers -- either outside customers or internal units or departments of the City. Proprietary fund statements provide the same type of information as shown in the government-wide financial statements, only in more detail. The City maintains the following two types of proprietary funds:

- Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for the operations of the water and sewer utilities, each of which are major funds.
- Internal service funds are used to report activities that provide services for many City programs and activities. The City uses internal service funds to account for equipment and certain insurances. Because these services benefit governmental operations more than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Individual fund data for the funds are provided in the form of combining statements in the supplementary section of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Since the resources of fiduciary funds are not available to support the City's own programs, they are not reflected in the government-wide financial statements. The accounting used for fiduciary funds is much like that used for proprietary funds.

Comparison of Government-wide and Fund Financial Components. The following chart compares how the City's funds are included in the government-wide and fund financial statements:

| Fund Types | Government-wide | Fund Financials |
|---|------------------------|-------------------------|
| General fund | Governmental | Governmental |
| Special assessment funds | Governmental | Governmental |
| Capital projects funds | Governmental | Governmental |
| Special revenue funds | Governmental | Governmental - nonmajor |
| Debt service funds | Governmental | Governmental - nonmajor |
| Permanent funds | Governmental | Governmental - nonmajor |
| Internal service funds | Governmental | Proprietary |
| Assets previously reported with General fixed assets | Governmental | Excluded |
| Infrastructure assets | Governmental | Excluded |
| Liabilities previously reported with general long-term debt | Governmental | Excluded |
| Water fund | Business-type | Proprietary |
| Sewer fund | Business-type | Proprietary |
| Fiduciary funds | Excluded | Fiduciary |

Basis of reporting. The government-wide statements and fund-level proprietary statements are reported using the flow of economic resources measurement focus and on the full accrual basis of accounting. The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting.

c. Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Financial Analysis of the Government-wide Statements

a. Net Assets

The combined net assets of the City were as follows:

| | Net Assets (in thousands) | | | | | |
|--|--|-------------|----------------------|-------------|---------------------------|-------------|
| | Governmental | | Business-type | | Total | |
| | Activities | | Activities | | Primary Government | |
| | <u>2006</u> | <u>2005</u> | <u>2006</u> | <u>2005</u> | <u>2006</u> | <u>2005</u> |
| Assets | | | | | | |
| Current and other assets | \$ 23,480 | \$ 21,328 | \$ 3,237 | \$ 3,150 | \$ 26,717 | \$ 24,478 |
| Capital assets | 101,293 | 104,077 | 92,264 | 92,771 | 193,557 | 196,848 |
| Total assets | 124,773 | 125,405 | 95,501 | 95,921 | 220,274 | 221,326 |
| Liabilities | | | | | | |
| Long-term debt outstanding | 73,556 | 68,052 | 29,347 | 29,159 | 102,903 | 97,211 |
| Other liabilities | 7,481 | 7,521 | 1,903 | 742 | 9,384 | 8,263 |
| Total liabilities | 81,037 | 75,573 | 31,250 | 29,901 | 112,287 | 105,474 |
| Net assets | | | | | | |
| Invested in capital assets, net of related debt | 15,355 | 24,041 | 62,699 | 63,612 | 78,054 | 87,653 |
| Restricted | 8,249 | 7,839 | 200 | 200 | 8,449 | 8,039 |
| Unrestricted | 20,132 | 17,952 | 1,352 | 2,208 | 21,484 | 20,160 |
| Total net assets | \$43,736 | \$49,832 | \$64,251 | \$66,020 | \$107,987 | \$115,852 |

As noted earlier, net assets may serve as a useful indicator of a government's financial position. For the City, assets exceeded liabilities by \$108 million at the close of the fiscal year, a decline of 7% over the prior year. This is attributable to the ongoing commitment to investing in capital improvements across the City. These investments decrease cash or increase debt and depreciate in value over time, any one of which will cause a decrease in net assets.

The largest portion of the City's net assets is restricted as to use, or is invested in capital assets (e.g. land, buildings, and equipment – 72.3%), less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens: consequently these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be liquidated for these liabilities.

An additional portion of the City's net assets, \$8.4 million (7.8%), represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$21.48 million (19.9%) may be used to meet the government's ongoing obligations to citizens and creditors.

The Government Finance Officers Association recommends that, at a minimum, a government, regardless of size, maintain an unreserved fund balance no less than 5 to 15 percent of regular general fund operating revenue, or no less than one to two months of regular fund expenditures. An adequate level of unreserved fund balance is necessary to mitigate current and future risks, and to ensure stable tax rates and service levels. The Portage City Council has indicated that it wished to see a 13% fund balance maintained as a guideline based on expenditures. At the end of the current fiscal year, the City is able to report positive balances in net assets for the government as a whole, as well as for business-type activities. It is also able to report an adequate level of fund balance at year-end. From year to year, the City may report a fund balance in excess of 13% as the result of planned savings for expenditures in the near future.

b. Changes in Net Assets

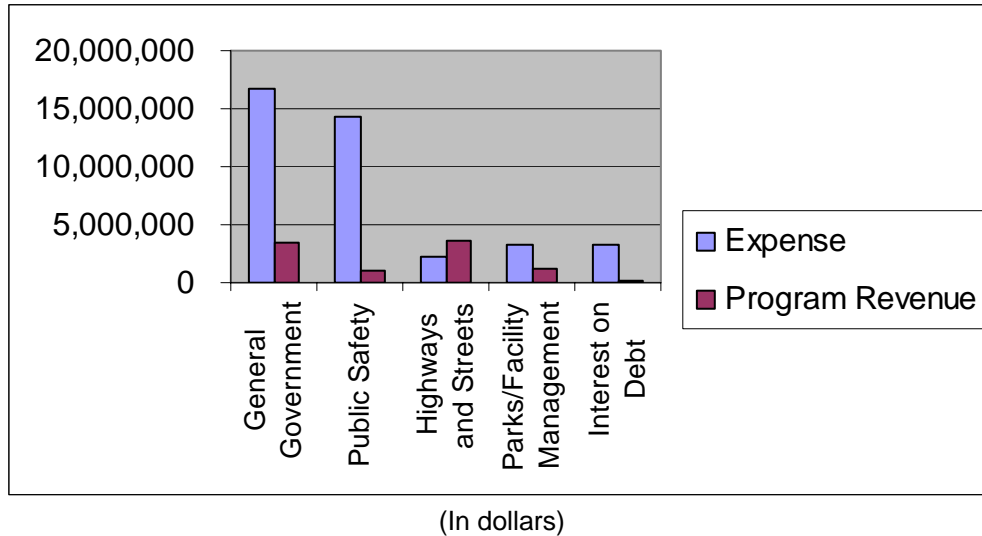
Total net assets of the City decreased by \$7.9 million in the current year. Governmental net assets decreased \$6.1 million, which is attributable primarily to the interaction of depreciation expense, offset by an increase in new fixed assets, coupled with an increase in debt issues reducing the value of capital assets net of debt. The business-type net assets decreased by \$1.8 million for the same reasons. For both Governmental Activities and Business-Type Activities, increases in operating costs over fiscal 2005 are primarily the result of wage and benefit cost increases for both union and non-union employees.

| Changes in Net Assets | | | | | | |
|--|--------------------------------|-------------------|---------------------------------|-------------------|---------------------------------|--------------------|
| (in thousands) | | | | | | |
| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
| Revenues | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Program revenues: | | | | | | |
| Charges for services | \$ 2,440 | \$ 2,475 | \$ 8,748 | \$ 7,972 | \$ 11,188 | \$ 10,447 |
| Capital grants | 2,355 | 2,311 | 2 | - | 2,357 | 2,311 |
| Operating grants | 4,826 | 4,992 | 97 | 98 | 4,923 | 5,090 |
| General revenues: | | | | | | |
| Property taxes | 17,936 | 17,928 | - | - | 17,936 | 17,928 |
| Interest revenue | 593 | 296 | - | - | 593 | 296 |
| Gain/(loss) | 9 | 26 | - | - | 9 | 26 |
| Other general revenues | 5,758 | 6,207 | - | - | 5,758 | 6,207 |
| Total revenues | 33,917 | 34,235 | 8,847 | 8,070 | 42,764 | 42,305 |
| Program expenses | | | | | | |
| Legislative | 54 | 48 | - | - | 54 | 48 |
| Judicial | 17 | 12 | - | - | 17 | 12 |
| General government | 5,496 | 6,014 | - | - | 5,496 | 6,014 |
| Public safety | 14,367 | 14,352 | - | - | 14,367 | 14,352 |
| Public works | 419 | 357 | - | - | 419 | 357 |
| Health and welfare | 1,560 | 1,714 | - | - | 1,560 | 1,714 |
| Economic development | 1,952 | 2,535 | - | - | 1,952 | 2,535 |
| Recreation and cultural | 3,238 | 3,125 | - | - | 3,238 | 3,125 |
| Public transportation | 151 | 118 | - | - | 151 | 118 |
| Highways and streets | 2,363 | 5,483 | - | - | 2,363 | 5,483 |
| Unallocated depreciation | 7,107 | 7,023 | - | - | 7,107 | 7,023 |
| Interest on long-term debt | 3,252 | 2,739 | - | - | 3,252 | 2,739 |
| Sewer | - | - | 5,723 | 5,472 | 5,723 | 5,472 |
| Water | - | - | 4,930 | 4,969 | 4,930 | 4,969 |
| Total expenses | 39,976 | 43,520 | 10,653 | 10,441 | 50,629 | 53,961 |
| Excess (deficiency) | | | | | | |
| Before transfers | (6,059) | (9,285) | (1,806) | (2,371) | (7,865) | (11,656) |
| Transfers | (37) | (100) | 37 | 100 | - | - |
| Increase (decrease) in net assets | \$ (6,096) | \$ (9,385) | \$ (1,769) | \$ (2,271) | \$ (7,865) | \$ (11,656) |

c. Program Revenues and Expenses - Governmental Activities

The chart below illustrates the City's governmental expense and activity revenues by function: general government, public safety, highways and streets, parks and facility management, and interest on debt. This chart illustrates the degree to which the primary activities of the City are funded through fees, charges, restricted revenue sharing programs, restricted grant funding, and other revenue initiatives. It is clear that very few City services would be possible without tax revenue. Highway and street services appear closest to self-supporting although the revenue in this sector is provided by state of Michigan Act 51 funding derived from fuel taxes. A decline in that revenue has been experienced in recent years, which is of concern over the long term.

Government-wide Program Operating Expenses and Revenues - Governmental Activities



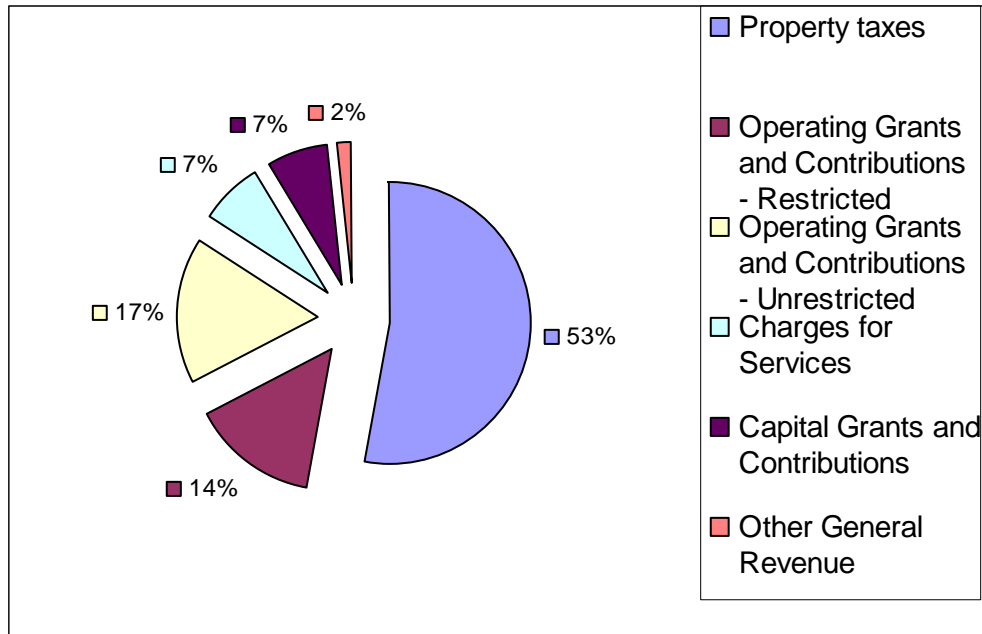
General revenues such as property taxes, fees and charges for services, and unrestricted grants and contributions are not shown by program, but are used to support program activities City-wide. For governmental activities, without regard to program, property taxes are the largest source of revenue, followed by restricted and unrestricted grant and contribution revenue, and charges for services.

**Governmental Activities
(in thousands)**

| | Total Cost of Services | | Net Cost of Services | |
|-------------------------|-----------------------------------|-----------------|---------------------------------|-----------------|
| | 2006 | 2005 | 2006 | 2005 |
| Public safety | \$14,383 | \$14,352 | \$13,294 | \$13,143 |
| General government | 5,515 | 6,014 | 4,906 | 5,426 |
| Highways and streets | 2,327 | 5,483 | (1,284) | 1,710 |
| Recreation and cultural | 3,240 | 3,125 | 2,049 | 2,023 |
| Health and welfare | 1,560 | 1,714 | (67) | (65) |
| All others | 12,952 | 12,832 | 11,457 | 11,506 |
| Total expenses | \$39,977 | \$43,520 | \$30,356 | \$33,743 |

The governmental activities chart above factors in general revenues from property taxes, fees and charges for services. It compares cost and net cost from 2004/2005 to 2005/2006. Costs increased primarily as a result of contractual increases, continued emphasis on street and highway infrastructure expenditure to attract economic development, and the non-cash impact of recognizing depreciation expense. Continued reductions in all intergovernmental revenues, and the continuing decline in the availability and amounts of grant funding are also behind the increase in the net cost of services. Declines in the cost of services reflect action taken by City Administration to control variable costs, seek alternative funding sources, and develop long term plans for cyclical infrastructure rehabilitation.

Government-wide Total Revenues by Source - Governmental Activities

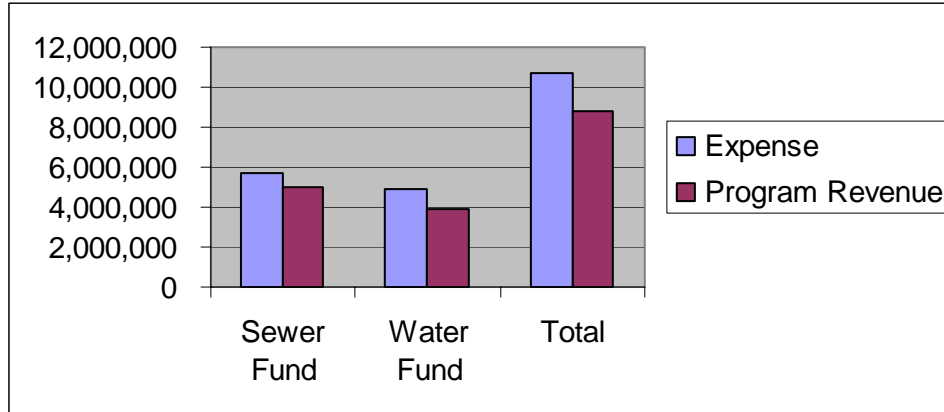


The above chart shows that each City revenue dollar consists of 53% property tax, 14% restricted purpose/use grant funding, 17% unrestricted grant funding, 7% charges for services, 7% capital grants and contributions, and 2% various types of other revenue.

d. Program Revenues and Expenses -- Business-type Activities

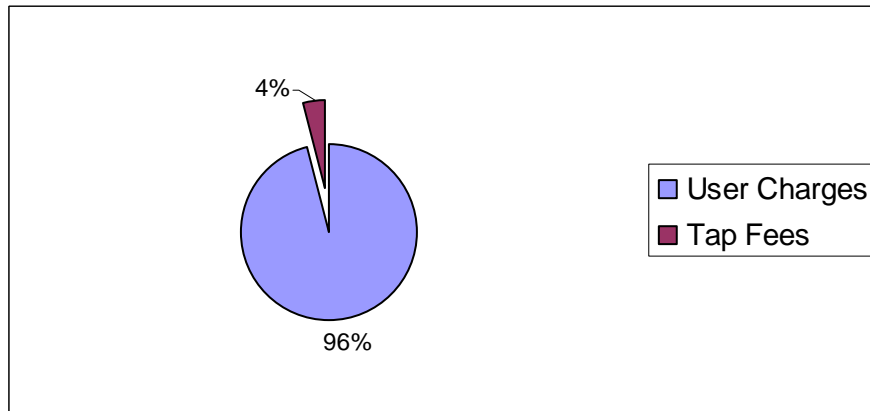
As shown in the following chart, combined operating expenditures exceeded combined operating revenues for the business-type activities. While leaving an adequate fund balance as directed by City Council, making use of fund balance rather than imposing widely varying and volatile rates for user fees was the strategic direction implemented by City Administration to continue operations, maintenance and improvement of City water and sewer systems.

Government-wide Operating Expenses and Program Revenues - Business-type Activities
(In dollars)



For business-type activities, charges for services provide the largest percentage of revenues (96%). Sewer tap fees (capacity charge, \$351,269) were formerly treated as contributed capital for financial reporting purposes. While less than the prior year, the continued substantial level indicates continuing growth in utility infrastructure that will, in turn, produce additional recurring revenue in the form of utility bills.

Government-wide Operating Revenue by Source - Business-type Activities



Financial Analysis of the Government's Fund Level Statements

In comparison to the government-wide statements, the fund-level statements focus on the key funds of the City. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

a. Governmental funds

The City reports the following types of governmental funds: the general fund, special assessments fund, capital improvement fund, and permanent funds. The focus of the City's governmental funds is to provide information on the near-term inflows, outflows and balances of resources that are available for spending. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, the unrestricted fund balance of the general fund was \$3.3 million, while total fund balance was \$4.4 million. As a measure of the general fund's liquidity, it may be useful to compare both unrestricted fund balance and total fund balance to total fund expenditures. Unrestricted fund balance represents 15% of total general fund expenditures (including transfers) of \$22 million, and total fund balance represents 20% of expenditures.

The fund balance in the general fund increased by \$337,816 during the fiscal year. The primary factor in the increase was prompt conservative action taken to control operating costs in light of continuing reductions in revenue from the state of Michigan and other governmental sources. Property tax revenues increased by almost 1% over fiscal 2004/2005, or approximately \$107,000, offsetting cost increases. Property tax revenue increased by 7.5% in 2004/2005 over 2003/2004, making the 2005/2006 increase of 1% a matter of concern going forward indicating a slowing of tax base growth. Whether it represents an abnormal year, or the beginning of a trend will be carefully watched. Increases in tax revenues are not a result of tax rate increases, in fact the 2005/2006 combined tax rate is the same as in 2004/2005. The increase in revenue is a direct result of growth in tax base.

The fund balance of the special assessment fund decreased on the basis of debt service in excess of current inflows. This utilization of fund balance mitigates the timing differences between the receipt of advance payoffs of assessments and the bond payment schedule.

The capital improvement fund balance increased by \$866,000 as the result of the amount of debt issued exceeding the number of capital projects in the City and their transition to fixed assets placed in service.

The Major and Local Streets funds are displayed as major funds in the financial statements at the direction of the State of Michigan. Both Major and Local Streets showed modest increases in fund balance, of \$114,000 and \$121,000 respectively. On the whole, these funds are in a slightly better position than in 2004/2005. Due in large part to prompt cost controls, actual combined expenditures decreased by \$734,634 over 2004/2005 (20%), more than offsetting the decrease in state source revenues of \$53,441 (1.5%). Savings are being accumulated to fund upcoming street projects.

b. Proprietary funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

- Sewer fund net assets decreased by \$741,000 primarily due to infrastructure expenditures for sewer line extensions and other capital investment, debt service cost, and depreciation in excess of the amount of increase in revenue.
- Water fund net assets decreased by \$1 million as a result of increases in general and administrative costs, debt service cost, and depreciation in excess of the amount of increase in revenue. At the outset of the year, it was determined by City Administration that fund balance would be allowed to absorb cost increases to dampen the effect on consumer rate increases over the short term.

c. Fiduciary funds

The City is the trustee, or *fiduciary*, for certain of its employees pension plans. It is also responsible for other assets that - because of trust arrangements - can be used only for the trust beneficiaries. All of the City's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets in the Supplemental Information section. We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Other Information

a. General fund budgetary highlights

The final amended expenditure budget for the general fund was \$739,738 greater than the original budget. This increase was the result of encumbrances carried forward from previous budget year appropriations, and the receipt of a state grant by the City Assessors' office. The amended budget reflects the reallocation of resources within the fund during the year for cost controls initiated by the City Manager.

The amended revenue budget for the general fund was \$230,336 more than the original budget reflecting grants awarded, recreation fees, and investment interest earnings that were not included in the original budget.

b. Capital assets

The City's capital assets for governmental and business-type activities as of June 30, 2006, amount to \$193,557,039 (net of accumulated depreciation). Capital assets include land, buildings and improvements, equipment, vehicles, and infrastructure. The total increase in the City's capital assets, before depreciation, for the current fiscal year was \$6,864,087. Capital asset balances are as follows:

| Capital Assets at Year-end (net of depreciation, in thousands) | | | | | | |
|---|------------------------------------|-------------------|-------------------------------------|------------------|-------------------------------------|-------------------|
| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Land | \$ 7,965 | \$ 7,606 | \$ 218 | \$ 218 | \$ 8,183 | \$ 7,824 |
| Land improvements | 3,495 | 3,621 | 45 | 51 | 3,540 | 3,672 |
| Buildings | 9,145 | 9,459 | 464 | 499 | 9,609 | 9,958 |
| Machinery and equipment | 910 | 1,201 | 205 | 259 | 1,115 | 1,460 |
| Vehicles | 2,220 | 2,834 | - | - | 2,220 | 2,834 |
| Water / sewer system | - | - | 91,332 | 91,962 | 91,332 | 91,962 |
| Infrastructure | 77,558 | 79,357 | - | - | 77,558 | 79,357 |
| Totals | \$ 101,293 | \$ 104,078 | \$ 92,264 | \$ 92,989 | \$ 193,557 | \$ 197,067 |

Major capital asset events during the current fiscal year included the following:

- Governmental capital assets increased by \$5.8 million, \$4.3 million of which was due to the addition of infrastructure assets.
- Business-type activities purchased or completed construction on capital assets of \$679,000, consisting of the replacement and extension of sewer and water lines, and well renovation costs.

More detailed information regarding capital assets can be found in Note 6 to the financial statements.

c. Debt Administration

At the end of the current fiscal year, the City reported \$99.9 million in outstanding bonded debt. Of this amount, \$77 million is general obligation debt backed by the full faith and credit of the City, \$22.9 million is revenue bonds, and other bonded debt requiring varying levels of guarantee. In addition, the City reported other long-term obligations of \$3 million. Additional information can be found in Note 8 to the financial statements.

Outstanding Obligations at Year-end (in thousands)

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|--|----------------------------|------------------|-----------------------------|------------------|-----------------------------|------------------|
| | <u>2006</u> | <u>2005</u> | <u>2006</u> | <u>2005</u> | <u>2006</u> | <u>2005</u> |
| General Obligation Bonds (backed by the city) | \$ 70,611 | \$ 65,205 | \$ 6,399 | \$ 5,089 | \$ 77,010 | \$ 70,294 |
| Revenue Bonds (backed By specific revenues) | - | - | 22,875 | 24,000 | 22,875 | 24,000 |
| Totals | <u>\$ 70,611</u> | <u>\$ 65,205</u> | <u>\$ 29,274</u> | <u>\$ 29,089</u> | <u>\$ 99,885</u> | <u>\$ 94,294</u> |

During fiscal year 2006, the City's total long-term obligations increased by \$5.6 million, net of scheduled payments. The City issued new debt, and the issues included:

- Bonded debt for government functions increased by \$5.4 million, and was used primarily for the following: park and bikeway improvements, and completion of the police station renovation. Street projects included: sidewalk extensions, Oakland Drive from Romence Road to West Centre Avenue widening, and major street resurfacing.
- Bonded debt for business-type functions increased \$185,000, net of scheduled payments, and was used primarily for infrastructure extensions.

The City continues to maintain excellent credit ratings on debt issues. The City has maintained an AA rating from Standard and Poor's since November, 2003, at which time it was upgraded from AA-.

d. Economic Factors and Next Year's Budget and Rates

The City Manager and the City's elected officials considered many factors when setting the fiscal year 2005/2006 budget. Promising signs of growth have resulted in initiatives such as two new Walgreens stores under construction, and completion of the new Stryker Corporation manufacturing facility. Employment has been relatively stable. In late 2002, the City began a savings plan to build reserves for 2002/2003 and beyond. This initiative has continued and the savings are smoothing the City's transition through the continuing decline in state source revenues. The City has continued aggressive cost containment measures, with City departments identifying one-time and on-going cost savings. City management has reduced costs through implementation of process improvements for greater efficiencies. The City has continued to pursue an aggressive course of economic diversification and development, as well as an emphasis on maintaining and improving its infrastructure, as a means to grow tax base and not rely solely on cost cutting to weather rough economic times. In late 2004, the City began

planning for its 2005/2006 budget addressing slower growth in tax base, and continuing decline in all categories of state funding.

e. Requests for information

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the finance department of the City of Portage, 7900 South Westnedge Avenue, Portage, Michigan 49002, or 269-329-4456, or on the web at <http://www.portagemi.gov>.

CITY OF PORTAGE, MICHIGAN
Statement of Net Assets
June 30, 2006

| | Primary Government | | | Component Unit |
|---|--------------------------------|---------------------------------|-----------------------|---|
| | Governmental Activities | Business-type Activities | Total | Economic Development Corporation |
| Assets | | | | |
| Cash and investments | \$ 16,454,213 | \$ 2,354,726 | \$ 18,808,939 | \$ 18,325 |
| Receivables, net | 6,221,384 | 2,652,835 | 8,874,219 | - |
| Prepaid items and other assets | 804,371 | 383,732 | 1,188,103 | - |
| Restricted assets: | | | | |
| Permanently restricted: | | | | |
| Cash | - | 200,000 | 200,000 | - |
| Land and rights of way | 12,382,092 | 217,945 | 12,600,037 | - |
| Capital assets, net of depreciation | 88,911,193 | 92,045,809 | 180,957,002 | - |
| Total assets | 124,773,253 | 97,855,047 | 222,628,300 | 18,325 |
| Liabilities | | | | |
| Accounts payable and accrued expenses | 6,327,960 | 582,848 | 6,910,808 | - |
| Checks issued on future deposits | - | 3,563,530 | 3,563,530 | - |
| Unearned revenue | 1,153,240 | 110,946 | 1,264,186 | - |
| Long-term liabilities: | | | | |
| Due within one year | 5,176,784 | 1,758,831 | 6,935,615 | - |
| Due in more than one year | 68,379,698 | 27,588,182 | 95,967,880 | - |
| Total liabilities | 81,037,682 | 33,604,337 | 114,642,019 | - |
| Net assets | | | | |
| Invested in capital assets, net of related debt | 15,354,711 | 62,916,741 | 78,271,452 | - |
| Restricted for: | | | | |
| Debt service | 5,725,651 | 200,000 | 5,925,651 | - |
| Capital projects | 1,799,270 | - | 1,799,270 | - |
| Nonexpendable | 724,240 | - | 724,240 | - |
| Unrestricted | 20,131,699 | 1,133,969 | 21,265,668 | 18,325 |
| Total net assets | \$ 43,735,571 | \$ 64,250,710 | \$ 107,986,281 | \$ 18,325 |

The notes to the financial statements are an integral part of this statement.

CITY OF PORTAGE, MICHIGAN
Statement of Activities
Fiscal Year Ended June 30, 2006

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets | | | |
|--|------------|-------------------------|--|--|---|-----------------------------|----------------|--|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government | | | Component Unit Economic Dev. Corp. |
| | | | | | Governmental Activities | Business-type Activities | Total | |
| Primary government | | | | | | | | |
| Governmental activities: | | | | | | | | |
| Legislative | \$ 54,394 | \$ - | \$ - | \$ - | \$ (54,394) | \$ - | \$ (54,394) | \$ - |
| Judicial | 16,763 | 32,000 | - | - | 15,237 | - | 15,237 | - |
| General government | 5,514,848 | 211,982 | 396,456 | - | (4,906,410) | - | (4,906,410) | - |
| Public safety | 14,383,301 | 977,520 | 111,617 | - | (13,294,164) | - | (13,294,164) | - |
| Public works | 419,620 | - | 149,062 | 1,052,729 | 782,171 | - | 782,171 | - |
| Health and welfare | 1,559,946 | 127,342 | 257,709 | 1,242,301 | 67,406 | - | 67,406 | - |
| Economic development | 1,951,954 | - | 21,195 | - | (1,930,759) | - | (1,930,759) | - |
| Recreation and cultural | 3,240,010 | 862,056 | 300,974 | 28,386 | (2,048,594) | - | (2,048,594) | - |
| Public transportation | 150,762 | - | - | - | (150,762) | - | (150,762) | - |
| Highways and streets | 2,326,796 | - | 3,578,173 | 32,296 | 1,283,673 | - | 1,283,673 | - |
| Unallocated depreciation expense | 7,107,333 | - | - | - | (7,107,333) | - | (7,107,333) | - |
| Interest on long-term debt | 3,251,372 | 228,823 | 10,770 | - | (3,011,779) | - | (3,011,779) | - |
| Total governmental activities | 39,977,099 | 2,439,723 | 4,825,956 | 2,355,712 | (30,355,708) | - | (30,355,708) | - |
| Business-type activities: | | | | | | | | |
| Sewer | 5,722,850 | 4,878,714 | 76,863 | 1,936 | - | (765,337) | (765,337) | - |
| Water | 4,930,786 | 3,869,299 | 20,419 | - | - | (1,041,068) | (1,041,068) | - |
| Total business-type activities | 10,653,636 | 8,748,013 | 97,282 | 1,936 | - | (1,806,405) | (1,806,405) | - |
| Total primary government | 50,630,735 | 11,187,736 | 4,923,238 | 2,357,648 | (30,355,708) | (1,806,405) | (32,162,113) | - |
| Component unit | | | | | | | | |
| Economic Development Corporation | - | - | 457 | - | - | - | - | 457 |
| Total component units | \$ - | \$ - | \$ 457 | \$ - | - | - | - | 457 |
| General revenues: | | | | | | | | |
| Property taxes | | | | | 17,935,699 | - | 17,935,699 | - |
| Grants and contributions not restricted to specific programs | | | | | 5,758,065 | - | 5,758,065 | - |
| Unrestricted investment earnings | | | | | 593,217 | - | 593,217 | - |
| Gain on sale of capital assets | | | | | 8,930 | - | 8,930 | - |
| Transfers | | | | | (37,000) | 37,000 | - | - |
| Total general revenues and transfers | | | | | 24,258,911 | 37,000 | 24,295,911 | - |
| Change in net assets | | | | | (6,096,797) | (1,769,405) | (7,866,202) | 457 |
| Net assets - beginning | | | | | 49,832,368 | 66,020,115 | 115,852,483 | 17,868 |
| Net assets - ending | | | | | \$ 43,735,571 | \$ 64,250,710 | \$ 107,986,281 | \$ 18,325 |

The notes to the financial statements are an integral part of this statement.

CITY OF PORTAGE, MICHIGAN

Balance Sheet Governmental Funds June 30, 2006

| | General Fund | Special Assessments Fund | Capital Projects Fund | Major Streets Fund | Local Streets Fund | Nonmajor Governmental Funds | Total |
|---|---------------------|--------------------------------|-----------------------------|--------------------------|--------------------------|-----------------------------------|----------------------|
| ASSETS | | | | | | | |
| Cash and investments | \$ 4,069,692 | \$ 4,418,861 | \$ 3,294,148 | \$ 198,033 | \$ 245,557 | \$ 3,183,633 | \$ 15,409,924 |
| Accounts receivable | 37,941 | - | - | - | - | 1,367,524 | 1,405,465 |
| Delinquent taxes receivable | 31,501 | - | - | - | - | - | 31,501 |
| Special assessments receivable | - | 3,561,569 | - | - | - | - | 3,561,569 |
| Due from other governments | 538,382 | 60,027 | - | 431,348 | 130,400 | 62,692 | 1,222,849 |
| Prepaid costs | 478,309 | - | - | 19,644 | 14,632 | 138,677 | 651,262 |
| Total assets | <u>\$ 5,155,825</u> | <u>\$ 8,040,457</u> | <u>\$ 3,294,148</u> | <u>\$ 649,025</u> | <u>\$ 390,589</u> | <u>\$ 4,752,526</u> | <u>\$ 22,282,570</u> |
| LIABILITIES | | | | | | | |
| Accounts payable | \$ 55,196 | \$ 646 | \$ 411,329 | \$ 66,513 | \$ 79 | \$ 37,564 | \$ 571,327 |
| Checks issued against future deposits | - | - | - | - | - | 156,458 | 156,458 |
| Accrued compensation | 464,295 | - | - | 18,623 | 16,296 | 12,841 | 512,055 |
| Interest payable | - | - | 35 | - | - | 30,973 | 31,008 |
| Deferred revenue | 9,234 | 3,600,307 | - | - | - | 1,144,006 | 4,753,547 |
| Deposits payable | 213,164 | - | 28,514 | - | - | 25,000 | 266,678 |
| Bond anticipation note | - | - | 1,055,000 | - | - | - | 1,055,000 |
| Total liabilities | <u>741,889</u> | <u>3,600,953</u> | <u>1,494,878</u> | <u>85,136</u> | <u>16,375</u> | <u>1,406,842</u> | <u>7,346,073</u> |
| FUND BALANCE | | | | | | | |
| Reserved for encumbrances | 571,864 | - | - | 359,668 | 4,690 | 63,804 | 1,000,026 |
| Reserved for prepaid costs | 458,099 | - | - | 19,644 | 14,632 | 7,999 | 500,374 |
| Reserved for imprest cash funds | 4,050 | - | - | - | - | - | 4,050 |
| Reserved for emergency preparedness | 1,000 | - | - | - | - | - | 1,000 |
| Reserved for public safety training | 42,004 | - | - | - | - | - | 42,004 |
| Reserved for uncompleted projects | - | - | 1,799,270 | - | - | 147,135 | 1,946,405 |
| Reserved for debt service | - | - | - | - | - | 1,994,680 | 1,994,680 |
| Reserved for perpetual care | - | - | - | - | - | 724,240 | 724,240 |
| Reserved for loans | - | - | - | - | - | 6,659 | 6,659 |
| Unreserved and undesignated, reported in: | | | | | | | |
| General fund | 3,336,919 | - | - | - | - | - | 3,336,919 |
| Debt service funds | - | 4,439,504 | - | - | - | - | 4,439,504 |
| Special revenue funds | - | - | - | 184,577 | 354,892 | 401,167 | 940,636 |
| Total fund balance | <u>4,413,936</u> | <u>4,439,504</u> | <u>1,799,270</u> | <u>563,889</u> | <u>374,214</u> | <u>3,345,684</u> | <u>14,936,497</u> |
| Total liabilities and fund balance | <u>\$ 5,155,825</u> | <u>\$ 8,040,457</u> | <u>\$ 3,294,148</u> | <u>\$ 649,025</u> | <u>\$ 390,589</u> | <u>\$ 4,752,526</u> | <u>\$ 22,282,570</u> |

The notes to the financial statements are an integral part of this statement.

CITY OF PORTAGE, MICHIGAN
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets
of Governmental Activities on the Statement of Net Assets
June 30, 2006

| | |
|--|---------------|
| Fund balances - total governmental funds | \$ 14,936,497 |
|--|---------------|

Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources, and therefore not reported in the funds.

| | |
|------------------------------------|---------------|
| Add: capital assets | 218,610,779 |
| Subtract: accumulated depreciation | (119,229,342) |

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

| | |
|-----------------------------------|-----------|
| Add: deferred special assessments | 3,600,307 |
|-----------------------------------|-----------|

Internal service funds are used by management to charge the costs of insurance and equipment to individual funds. The assets and liabilities of certain internal service funds are included in governmental activities in the statement of net assets.

| | |
|--|---------|
| Add: net assets of governmental activities accounted for in internal service funds | 621,183 |
|--|---------|

Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.

| | |
|---|--------------------|
| Subtract: bonds payable, net of internal service fund debt | (68,757,784) |
| Subtract: compensated absences and other long-term liabilities, net of internal service fund compensated absences | (2,912,214) |
| Subtract: accrued interest on long-term liabilities | <u>(3,133,855)</u> |

| | |
|---------------------------------------|-----------------------------|
| Net assets of governmental activities | <u><u>\$ 43,735,571</u></u> |
|---------------------------------------|-----------------------------|

The accompanying notes are an integral part of these financial statements.

CITY OF PORTAGE, MICHIGAN

Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds

Fiscal Year Ended June 30, 2006

| | General Fund | Special Assessments Fund | Capital Projects Fund | Major Streets Fund | Local Streets Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|--|---------------------|--------------------------------|-----------------------------|--------------------------|--------------------------|-----------------------------------|--------------------------------|
| REVENUES: | | | | | | | |
| Taxes and special assessments | \$ 14,001,291 | \$ 2,395,731 | \$ 3,508,561 | \$ - | \$ - | \$ 1,706,816 | \$ 21,612,399 |
| Licenses and permits | 655,323 | - | - | - | - | 533,320 | 1,188,643 |
| Intergovernmental | 4,162,852 | - | 345,221 | 2,762,403 | 794,756 | 231,115 | 8,296,347 |
| Charges for services | 2,420,364 | - | - | - | - | 71,398 | 2,491,762 |
| Interest and rents | 610,490 | 497,324 | 72,018 | 19,351 | 1,653 | 321,300 | 1,522,136 |
| Other | 198,101 | - | 32,296 | - | 10 | 227,199 | 457,606 |
| Total revenues | <u>22,048,421</u> | <u>2,893,055</u> | <u>3,958,096</u> | <u>2,781,754</u> | <u>796,419</u> | <u>3,091,148</u> | <u>35,568,893</u> |
| EXPENDITURES: | | | | | | | |
| Current: | | | | | | | |
| Legislative | 54,394 | - | - | - | - | - | 54,394 |
| Judicial | 16,763 | - | - | - | - | - | 16,763 |
| General government | 5,165,479 | - | - | - | - | 54,924 | 5,220,403 |
| Public safety | 13,396,072 | - | - | - | - | 64,212 | 13,460,284 |
| Public works | 357,365 | - | - | - | - | - | 357,365 |
| Health and welfare | 129,744 | - | - | - | - | 1,415,485 | 1,545,229 |
| Recreation and cultural | 2,335,473 | - | - | - | - | 505,263 | 2,840,736 |
| Public transportation | 149,121 | - | - | - | - | - | 149,121 |
| Highways and streets | - | - | - | 1,820,084 | 1,200,924 | - | 3,021,008 |
| Refund of tax revenues | - | - | - | - | - | 10,282 | 10,282 |
| Development | - | - | - | - | - | 1,951,954 | 1,951,954 |
| Capital outlay | - | - | 5,511,322 | - | - | - | 5,511,322 |
| Debt service: | | | | | | | |
| Principal | - | 919,000 | - | - | - | 2,303,969 | 3,222,969 |
| Interest and fiscal charges | - | 335,699 | - | - | - | 2,467,415 | 2,803,114 |
| Total expenditures | <u>21,604,411</u> | <u>1,254,699</u> | <u>5,511,322</u> | <u>1,820,084</u> | <u>1,200,924</u> | <u>8,773,504</u> | <u>40,164,944</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>444,010</u> | <u>1,638,356</u> | <u>(1,553,226)</u> | <u>961,670</u> | <u>(404,505)</u> | <u>(5,682,356)</u> | <u>(4,596,051)</u> |
| OTHER FINANCING SOURCES (USES): | | | | | | | |
| Issuance of debt | - | - | 5,673,827 | - | - | 3,120,000 | 8,793,827 |
| Transfers in | 311,306 | - | 780,000 | 118,500 | 545,400 | 3,975,698 | 5,730,904 |
| Transfers out | (417,500) | - | (4,034,500) | (965,900) | (19,500) | (330,504) | (5,767,904) |
| Net other financing sources (uses) | <u>(106,194)</u> | <u>-</u> | <u>2,419,327</u> | <u>(847,400)</u> | <u>525,900</u> | <u>6,765,194</u> | <u>8,756,827</u> |
| Net change in fund balances | 337,816 | 1,638,356 | 866,101 | 114,270 | 121,395 | 1,082,838 | 4,160,776 |
| Fund balances - beginning | <u>4,076,120</u> | <u>2,801,148</u> | <u>933,169</u> | <u>449,619</u> | <u>252,819</u> | <u>2,262,846</u> | <u>10,775,721</u> |
| Fund balances - ending | <u>\$ 4,413,936</u> | <u>\$ 4,439,504</u> | <u>\$ 1,799,270</u> | <u>\$ 563,889</u> | <u>\$ 374,214</u> | <u>\$ 3,345,684</u> | <u>\$ 14,936,497</u> |

The notes to the financial statements are an integral part of this statement.

CITY OF PORTAGE, MICHIGAN
Reconciliation of the Statement of Revenue, Expenditures
and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
Fiscal Year Ended June 30, 2006

Net change in fund balances - total governmental funds \$ 4,160,776

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

| | |
|--------------------------------|-------------|
| Add: capital outlay | 6,496,277 |
| Subtract: depreciation expense | (9,046,792) |

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

| | |
|--|-------------|
| Add: principal payments on long-term liabilities | 3,222,969 |
| Add/(subtract): change in Special Assessments deferred revenue | (1,691,264) |
| Subtract: issuance of debt | (8,793,827) |

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

| | |
|---|-------------|
| Add: prior year accrued interest on bonds | 2,758,135 |
| Subtract: current year accrued interest on bonds | (3,133,855) |
| Subtract: increase in the accrual of compensated absences | (97,100) |

Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities.

| | |
|---|----------|
| Add: interest revenue from governmental internal service funds | 41,025 |
| Add: gain on disposal of fixed assets in governmental internal service funds | 8,930 |
| Subtract: interest expense from governmental internal service funds | (72,880) |
| Add: net operating loss from governmental activities accounted for in internal service funds | 50,809 |

| | |
|---|----------------|
| Change in net assets of governmental activities | \$ (6,096,797) |
|---|----------------|

The accompanying notes are an integral part of these financial statements.

CITY OF PORTAGE, MICHIGAN

General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual

Fiscal Year Ended June 30, 2006

| REVENUES: | Original Budget | Amended Budget | Actual | Variance with Amended Budget + / (-) |
|--------------------------------|--------------------|-------------------|----------------|--|
| Taxes: | | | | |
| Property tax collections | \$ 13,742,200 | \$ 13,742,200 | \$ 13,139,287 | \$ (602,913) |
| Penalty and interest | 50,000 | 50,000 | 70,424 | 20,424 |
| Administration fees | 796,000 | 796,000 | 791,580 | (4,420) |
| Licenses and permits: | | | | |
| Building fees and permits | 680,075 | 680,075 | 626,306 | (53,769) |
| Liquor licenses | 21,000 | 21,000 | 29,017 | 8,017 |
| Federal grants | - | 4,229 | 4,229 | - |
| State Grants: | | | | |
| Revenue sharing | 4,006,000 | 4,006,000 | 3,947,764 | (58,236) |
| Criminal justice grants | 10,000 | 10,000 | 18,311 | 8,311 |
| Parks grants | 2,500 | 3,300 | 3,925 | 625 |
| Senior Center grants | 63,430 | 63,430 | 45,998 | (17,432) |
| Tax audit grants | - | - | 94,877 | 94,877 |
| Other state grants | 2,500 | 2,500 | 16,696 | 14,196 |
| Contribution from local units | 28,789 | 28,789 | 31,052 | 2,263 |
| Charges for services: | | | | |
| Recreation fees | 209,000 | 218,913 | 222,713 | 3,800 |
| Police service fees | 213,500 | 213,500 | 241,667 | 28,167 |
| Planning, zoning and site fees | 87,500 | 87,500 | 84,313 | (3,187) |
| Accounting and management | 1,789,190 | 1,789,190 | 1,790,088 | 898 |
| Cemetery | 58,000 | 58,000 | 47,209 | (10,791) |
| Court Cost Reimbursement | 32,000 | 32,000 | 32,000 | - |
| Senior Center | 1,000 | 1,000 | 1,189 | 189 |
| Other | 1,500 | 1,500 | 1,185 | (315) |
| Fines and forfeits | 25,000 | 25,000 | - | (25,000) |
| Interest and rents: | | | | |
| Interest on investments | 180,000 | 390,394 | 480,174 | 89,780 |
| Rental income | 156,000 | 156,000 | 130,316 | (25,684) |
| Other: | | | | |
| Reimbursements: | | | | |
| Senior Center | 132,500 | 132,500 | 121,965 | (10,535) |
| Other reimbursements | 30,900 | 30,900 | 4,032 | (26,868) |
| Property sales | 25,000 | 25,000 | 13,492 | (11,508) |
| Donations | 18,000 | 23,000 | 15,358 | (7,642) |
| Miscellaneous | 26,325 | 26,325 | 43,254 | 16,929 |
| Total revenues | 22,387,909 | 22,618,245 | 22,048,421 | (569,824) |

continued...

CITY OF PORTAGE, MICHIGAN

General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual (continued) Fiscal Year Ended June 30, 2006

| | Original Budget | Amended Budget | Actual | Variance with Amended Budget + / (-) |
|---------------------------------|--------------------|-------------------|-----------|--|
| EXPENDITURES: | | | | |
| Judicial: | | | | |
| District Court | \$ 23,162 | \$ 23,162 | \$ 16,763 | \$ 6,399 |
| Legislative: | | | | |
| City Council | 48,600 | 57,200 | 54,394 | 2,806 |
| General Government: | | | | |
| City Manager | 768,811 | 767,917 | 684,426 | 83,491 |
| Finance: | | | | |
| Accounting | 346,535 | 349,611 | 327,863 | 21,748 |
| Financial management | 370,968 | 368,282 | 349,659 | 18,623 |
| Treasury | 212,255 | 212,255 | 197,046 | 15,209 |
| City assessor: | | | | |
| Assessor | 653,235 | 752,287 | 672,810 | 79,477 |
| Board of review | 29,136 | 30,786 | 28,396 | 2,390 |
| City attorney | 185,818 | 189,387 | 188,742 | 645 |
| City clerk: | | | | |
| Elections | 160,635 | 169,635 | 143,290 | 26,345 |
| City clerk | 150,808 | 156,780 | 122,907 | 33,873 |
| Records management | 59,166 | 60,166 | 51,736 | 8,430 |
| Human resources: | | | | |
| Employee development | 541,873 | 542,464 | 450,260 | 92,204 |
| Benefit services | 402,651 | 407,251 | 364,155 | 43,096 |
| Information services: | | | | |
| Management information services | 670,475 | 696,483 | 649,824 | 46,659 |
| Communication services | (25,028) | 3,525 | (12,668) | 16,193 |
| Purchasing: | | | | |
| Purchasing | 251,325 | 258,034 | 242,889 | 15,145 |
| Risk management | 53,906 | 54,264 | 47,546 | 6,718 |
| Buildings | 514,626 | 591,390 | 545,243 | 46,147 |
| Cemeteries | 115,482 | 118,889 | 111,355 | 7,534 |
| Public safety: | | | | |
| Police: | | | | |
| Administration | 673,521 | 795,325 | 714,065 | 81,260 |
| Youth services | 759,446 | 759,686 | 746,017 | 13,669 |
| Investigation | 490,703 | 518,524 | 502,158 | 16,366 |
| Patrol | 4,551,601 | 4,564,757 | 4,300,256 | 264,501 |
| Training | 175,693 | 181,538 | 158,318 | 23,220 |
| Central communications | 937,082 | 940,936 | 912,282 | 28,654 |
| 911 Call Center | 69,404 | 69,404 | 57,365 | 12,039 |
| Records | 632,597 | 633,937 | 613,421 | 20,516 |
| Drug law enforcement | 199,369 | 199,369 | 187,827 | 11,542 |
| Fire: | | | | |
| Administration | 623,567 | 660,056 | 617,748 | 42,308 |
| Operations | 3,251,893 | 3,303,877 | 3,099,334 | 204,543 |
| On-call | 115,612 | 116,973 | 110,232 | 6,741 |
| Emergency operations | - | 1,900 | 1,414 | 486 |
| Fire marshal | 110,634 | 112,271 | 106,154 | 6,117 |
| Training | 123,798 | 127,759 | 117,362 | 10,397 |

continued...

CITY OF PORTAGE, MICHIGAN

General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual (continued) Fiscal Year Ended June 30, 2006

| | Original Budget | Amended Budget | Actual | Variance with Amended Budget + / (-) |
|--|---------------------|---------------------|---------------------|--|
| EXPENDITURES (continued): | | | | |
| Community development: | | | | |
| Building services | \$ 655,895 | \$ 670,092 | \$ 618,404 | \$ 51,688 |
| Planning/community development | 324,988 | 333,485 | 286,650 | 46,835 |
| Neighborhood services | 262,496 | 271,574 | 247,065 | 24,509 |
| Public works: | | | | |
| Street lighting | 375,500 | 427,874 | 357,365 | 70,509 |
| Health and welfare: | | | | |
| Human services | 126,370 | 140,784 | 129,744 | 11,040 |
| Recreation and cultural: | | | | |
| Senior citizen center | 433,901 | 444,979 | 390,700 | 54,279 |
| Recreation | 266,732 | 272,530 | 263,261 | 9,269 |
| Parks | 1,640,253 | 1,717,834 | 1,681,512 | 36,322 |
| Transportation subsidies | 119,881 | 119,881 | 149,121 | (29,240) |
| Total expenditures | <u>22,455,375</u> | <u>23,195,113</u> | <u>21,604,411</u> | <u>1,590,702</u> |
| Excess of revenues over expenditures | <u>(67,466)</u> | <u>(576,868)</u> | <u>444,010</u> | <u>1,020,878</u> |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfers in: | | | | |
| Leaf Pickup/Spring Cleanup Fund | 187,306 | 187,306 | 187,306 | - |
| Cable TV Fund | 115,000 | 115,000 | 115,000 | - |
| Cemetery Perpetual Care Fund | 9,000 | 9,000 | 9,000 | - |
| Transfers out: | | | | |
| Major Street Fund | (81,500) | (168,500) | (118,500) | 50,000 |
| Local Street Fund | <u>(336,000)</u> | <u>(299,000)</u> | <u>(299,000)</u> | <u>-</u> |
| Total other financing sources and uses | <u>(106,194)</u> | <u>(156,194)</u> | <u>(106,194)</u> | <u>50,000</u> |
| Net change in fund balance | (173,660) | (733,062) | 337,816 | 1,070,878 |
| Fund balance - beginning | <u>4,076,120</u> | <u>4,076,120</u> | <u>4,076,120</u> | <u>-</u> |
| Fund balance - ending | <u>\$ 3,902,460</u> | <u>\$ 3,343,058</u> | <u>\$ 4,413,936</u> | <u>\$ 1,070,878</u> |

The accompanying notes are an integral part of these financial statements.

CITY OF PORTAGE, MICHIGAN

Special Assessments Fund Statement of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual

Fiscal Year Ended June 30, 2006

| | Original Budget | Amended Budget | Actual | Variance with Amended Budget + / (-) |
|--|---------------------|---------------------|---------------------|--|
| REVENUE: | | | | |
| Special assessments | \$ 905,033 | \$ 905,033 | \$ 2,395,731 | \$ 1,490,698 |
| Interest on special assessments | 303,303 | 303,303 | 348,090 | 44,787 |
| Interest on investments | 44,700 | 50,355 | 149,234 | 98,879 |
| Total revenues | <u>1,253,036</u> | <u>1,258,691</u> | <u>2,893,055</u> | <u>1,634,364</u> |
| EXPENDITURES: | | | | |
| Debt Service: | | | | |
| Principal retirement | 919,000 | 919,000 | 919,000 | - |
| Interest and fiscal charges | <u>333,526</u> | <u>339,181</u> | <u>335,699</u> | <u>3,482</u> |
| Total expenditures | <u>1,252,526</u> | <u>1,258,181</u> | <u>1,254,699</u> | <u>3,482</u> |
| Excess (deficiency) of revenues over expenditures | <u>510</u> | <u>510</u> | <u>1,638,356</u> | <u>1,637,846</u> |
| Net change in fund balance | 510 | 510 | 1,638,356 | 1,637,846 |
| Fund balance - beginning | <u>2,801,148</u> | <u>2,801,148</u> | <u>2,801,148</u> | <u>-</u> |
| Fund balance - ending | <u>\$ 2,801,658</u> | <u>\$ 2,801,658</u> | <u>\$ 4,439,504</u> | <u>\$ 1,637,846</u> |

The accompanying notes are an integral part of these financial statements.

CITY OF PORTAGE, MICHIGAN

Capital Projects Fund Statement of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual

Fiscal Year Ended June 30, 2006

| | Original Budget | Amended Budget | Actual | Variance with Amended Budget + / (-) |
|--|--------------------|-----------------------|---------------------|--|
| REVENUE: | | | | |
| Taxes and special assessments | \$ 3,746,000 | \$ 3,746,000 | \$ 3,508,561 | \$ (237,439) |
| Intergovernmental: | | | | |
| Federal grants | 940,000 | 1,208,246 | - | (1,208,246) |
| State grants | - | 99,846 | 345,221 | 245,375 |
| Interest and rents | 200,000 | 200,000 | 72,018 | (127,982) |
| Other | - | 58,467 | 32,296 | (26,171) |
| Total revenues | <u>4,886,000</u> | <u>5,312,559</u> | <u>3,958,096</u> | <u>(1,354,463)</u> |
| EXPENDITURES: | | | | |
| Capital outlay | <u>6,453,000</u> | <u>16,283,583</u> | <u>5,511,322</u> | <u>10,772,261</u> |
| Total expenditures | <u>6,453,000</u> | <u>16,283,583</u> | <u>5,511,322</u> | <u>10,772,261</u> |
| Excess (deficiency) of revenues over expenditures | <u>(1,567,000)</u> | <u>(10,971,024)</u> | <u>(1,553,226)</u> | <u>9,417,798</u> |
| OTHER FINANCING SOURCES (USES): | | | | |
| Proceeds of debt obligations | 4,856,000 | 12,557,407 | 5,673,827 | (6,883,580) |
| Transfers in | 790,000 | 978,198 | 780,000 | (198,198) |
| Transfers out | <u>(4,079,000)</u> | <u>(4,916,213)</u> | <u>(4,034,500)</u> | <u>881,713</u> |
| Total other financing sources and uses | <u>1,567,000</u> | <u>8,619,392</u> | <u>2,419,327</u> | <u>(6,200,065)</u> |
| Net change in fund balance | - | (2,351,632) | 866,101 | 3,217,733 |
| Fund balance - beginning | <u>933,169</u> | <u>933,169</u> | <u>933,169</u> | <u>-</u> |
| Fund balance - ending | <u>\$ 933,169</u> | <u>\$ (1,418,463)</u> | <u>\$ 1,799,270</u> | <u>\$ 3,217,733</u> |

The accompanying notes are an integral part of these financial statements.

CITY OF PORTAGE, MICHIGAN

Major Streets Fund Statement of Revenues, Expenditures and Changes in Fund Balance Budget and Actual

Fiscal Year Ended June 30, 2006

| | Original Budget | Amended Budget | Actual | Variance with Amended Budget + / (-) |
|--|--------------------|-------------------|-------------------|--|
| REVENUES | | | | |
| Intergovernmental: | | | | |
| State grants | \$ 2,951,000 | \$ 2,951,000 | \$ 2,762,403 | \$ (188,597) |
| Interest on investments | 6,000 | 15,000 | 19,351 | 4,351 |
| Total revenues | <u>2,957,000</u> | <u>2,966,000</u> | <u>2,781,754</u> | <u>(184,246)</u> |
| EXPENDITURES | | | | |
| Highways and streets: | | | | |
| Routine maintenance | 1,090,120 | 1,134,425 | 680,333 | 454,092 |
| Traffic services | 559,099 | 602,366 | 519,596 | 82,770 |
| Winter maintenance | 451,005 | 451,005 | 451,494 | (489) |
| Administration | 203,529 | 198,710 | 168,661 | 30,049 |
| Total expenditures | <u>2,303,753</u> | <u>2,386,506</u> | <u>1,820,084</u> | <u>566,422</u> |
| Excess (deficiency) of revenues over expenditures | <u>653,247</u> | <u>579,494</u> | <u>961,670</u> | <u>382,176</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in: | | | | |
| General Fund | 81,500 | 118,500 | 118,500 | - |
| Transfers out: | | | | |
| Local Street Fund | (246,400) | (246,400) | (246,400) | - |
| Sewer Fund | (19,500) | (19,500) | (19,500) | - |
| Capital Improvement Funds | <u>(700,000)</u> | <u>(700,000)</u> | <u>(700,000)</u> | <u>-</u> |
| Net other financing sources (uses) | <u>(884,400)</u> | <u>(847,400)</u> | <u>(847,400)</u> | <u>-</u> |
| Net change in fund balances | (231,153) | (267,906) | 114,270 | 382,176 |
| Fund balances - beginning | <u>449,619</u> | <u>449,619</u> | <u>449,619</u> | <u>-</u> |
| Fund balances - ending | <u>\$ 218,466</u> | <u>\$ 181,713</u> | <u>\$ 563,889</u> | <u>\$ 382,176</u> |

The accompanying notes are an integral part of these financial statements.

CITY OF PORTAGE, MICHIGAN

Local Streets Fund Statement of Revenues, Expenditures and Changes in Fund Balance Budget and Actual

Fiscal Year Ended June 30, 2006

| | Original Budget | Amended Budget | Actual | Variance with Amended Budget + / (-) |
|--|--------------------|-------------------|-------------------|--|
| REVENUES | | | | |
| Intergovernmental: | | | | |
| State grants | \$ 825,000 | \$ 825,000 | \$ 794,756 | \$ (30,244) |
| Interest on investments | 1,000 | 1,000 | 1,653 | 653 |
| Other revenue | - | - | 10 | 10 |
| Total revenues | <u>826,000</u> | <u>826,000</u> | <u>796,419</u> | <u>(29,581)</u> |
| EXPENDITURES | | | | |
| Highways and streets: | | | | |
| Routine maintenance | 710,229 | 686,335 | 622,825 | 63,510 |
| Traffic services | 78,015 | 79,040 | 66,448 | 12,592 |
| Winter maintenance | 426,670 | 425,120 | 364,851 | 60,269 |
| Administration | <u>191,498</u> | <u>186,022</u> | <u>146,800</u> | <u>39,222</u> |
| Total expenditures | <u>1,406,412</u> | <u>1,376,517</u> | <u>1,200,924</u> | <u>175,593</u> |
| Excess (deficiency) of revenues over expenditures | <u>(580,412)</u> | <u>(550,517)</u> | <u>(404,505)</u> | <u>146,012</u> |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfers in: | | | | |
| General Fund | 336,000 | 299,000 | 299,000 | - |
| Major Street Fund | 246,400 | 246,400 | 246,400 | - |
| Transfers out: | | | | |
| Sewer Operating Fund | <u>(19,500)</u> | <u>(19,500)</u> | <u>(19,500)</u> | <u>-</u> |
| Net other financing sources (uses) | <u>562,900</u> | <u>525,900</u> | <u>525,900</u> | <u>-</u> |
| Net change in fund balances | (17,512) | (24,617) | 121,395 | 146,012 |
| Fund balances - beginning | <u>252,819</u> | <u>252,819</u> | <u>252,819</u> | <u>-</u> |
| Fund balances - ending | <u>\$ 235,307</u> | <u>\$ 228,202</u> | <u>\$ 374,214</u> | <u>\$ 146,012</u> |

The accompanying notes are an integral part of these financial statements.

CITY OF PORTAGE, MICHIGAN

Statement of Net Assets Proprietary Funds

June 30, 2006

| | Business-type Activities | | | Governmental Activities |
|---|--------------------------|--------------------|---------------------|----------------------------|
| | Sewer Fund | Water Fund | Total | Internal Service Funds |
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and investments | \$ 2,354,726 | \$ - | \$ 2,354,726 | \$ 1,200,747 |
| Restricted cash and investments: | | | | |
| Revenue bonds | 100,000 | 100,000 | 200,000 | - |
| Accounts receivable | 1,300,009 | 1,031,134 | 2,331,143 | - |
| Due from other governmental units | - | 19,544 | 19,544 | - |
| Inventory | - | - | - | 82,980 |
| Prepaid costs | 99,981 | 283,751 | 383,732 | 70,129 |
| Current portion of hookup: charges receivable | 27,853 | 16,649 | 44,502 | - |
| Total current assets | <u>3,882,569</u> | <u>1,451,078</u> | <u>5,333,647</u> | <u>1,353,856</u> |
| Noncurrent assets: | | | | |
| Hook-up charges receivable (net of current portion) | 146,228 | 111,418 | 257,646 | - |
| Total other assets | <u>146,228</u> | <u>111,418</u> | <u>257,646</u> | <u>-</u> |
| Capital assets: | | | | |
| Land | 51,495 | 166,450 | 217,945 | 22,489 |
| Land improvements | - | 90,517 | 90,517 | 123,769 |
| Buildings | 690,470 | 399,031 | 1,089,501 | 1,757,821 |
| Utility system | 66,622,890 | 49,902,758 | 116,525,648 | - |
| Machinery and equipment | 705,022 | 457,055 | 1,162,077 | 972,566 |
| Vehicles | - | - | - | 3,715,009 |
| Less accumulated depreciation | <u>(18,054,118)</u> | <u>(8,767,816)</u> | <u>(26,821,934)</u> | <u>(4,679,806)</u> |
| Total capital assets (net of accumulated depreciation) | <u>50,015,759</u> | <u>42,247,995</u> | <u>92,263,754</u> | <u>1,911,848</u> |
| Total noncurrent assets | <u>50,161,987</u> | <u>42,359,413</u> | <u>92,521,400</u> | <u>1,911,848</u> |
| Total assets | <u>54,044,556</u> | <u>43,810,491</u> | <u>97,855,047</u> | <u>3,265,704</u> |

The notes to the financial statements are an integral part of this statement.

CITY OF PORTAGE, MICHIGAN

Statement of Net Assets Proprietary Funds (continued) June 30, 2006

| | Business-type Activities | | | Governmental Activities |
|--|--------------------------|----------------------|----------------------|----------------------------|
| | Sewer Fund | Water Fund | Total | Internal Service Funds |
| <u>LIABILITIES</u> | | | | |
| Current liabilities: | | | | |
| Accounts payable | \$ 244,235 | \$ 166,915 | \$ 411,150 | \$ 11,060 |
| Accrued compensation | 10,614 | 12,723 | 23,337 | 10,916 |
| Checks issued on future deposits | - | 3,563,530 | 3,563,530 | - |
| Workers' compensation | - | - | - | 717,063 |
| Accrued interest payable | 33,731 | 114,630 | 148,361 | 18,998 |
| Deferred revenue | 109,340 | 1,606 | 110,946 | - |
| Current portion of long term debt | 529,718 | 1,229,113 | 1,758,831 | 387,334 |
| Total current liabilities | <u>927,638</u> | <u>5,088,517</u> | <u>6,016,155</u> | <u>1,145,371</u> |
| Long term debt: | | | | |
| Revenue bonds (net of current portion) | 3,877,005 | 13,844,452 | 17,721,457 | - |
| Limited tax general obligation bonds (net of current portion) | 1,936,983 | 7,884,916 | 9,821,899 | - |
| Notes payable-net of current portion | - | - | - | 80,080 |
| Capitalized lease (net of current portion) | - | - | - | 1,385,333 |
| Accrued vacation and sick pay | 22,406 | 22,420 | 44,826 | 33,737 |
| Total long term debt | <u>5,836,394</u> | <u>21,751,788</u> | <u>27,588,182</u> | <u>1,499,150</u> |
| Total liabilities | <u>6,764,032</u> | <u>26,840,305</u> | <u>33,604,337</u> | <u>2,644,521</u> |
| <u>NET ASSETS</u> | | | | |
| Invested in capital assets, net of related debt | 43,649,647 | 19,267,094 | 62,916,741 | 59,101 |
| Restricted: | | | | |
| Restricted for revenue bond indentures | 100,000 | 100,000 | 200,000 | - |
| Unrestricted | <u>3,530,877</u> | <u>(2,396,908)</u> | <u>1,133,969</u> | <u>562,082</u> |
| Total net assets | <u>\$ 47,280,524</u> | <u>\$ 16,970,186</u> | <u>\$ 64,250,710</u> | <u>\$ 621,183</u> |

CITY OF PORTAGE, MICHIGAN

Statement of Revenues, Expenses, and Changes in Fund Net Assets Proprietary Funds

Fiscal Year Ended June 30, 2006

| | Business-type Activities | | | Governmental Activities |
|---|--------------------------|----------------------|----------------------|----------------------------|
| | Sewer Fund | Water Fund | Total | Internal Service Funds |
| Operating revenues: | | | | |
| Charges for services: | | | | |
| User charges | \$ 4,527,445 | \$ 3,841,036 | \$ 8,368,481 | \$ 2,245,995 |
| Capacity charge | 351,269 | - | 351,269 | - |
| Other | - | - | - | 25,757 |
| Total operating revenues | <u>4,878,714</u> | <u>3,841,036</u> | <u>8,719,750</u> | <u>2,271,752</u> |
| Operating expenses: | | | | |
| Operations and maintenance | 3,654,758 | 1,966,215 | 5,620,973 | 1,816,247 |
| General and administrative | 1,056,728 | 1,382,468 | 2,439,196 | - |
| Depreciation | 749,335 | 657,245 | 1,406,580 | 405,038 |
| Total operating expenses | <u>5,460,821</u> | <u>4,005,928</u> | <u>9,466,749</u> | <u>2,221,285</u> |
| Operating income (loss) | <u>(582,107)</u> | <u>(164,892)</u> | <u>(746,999)</u> | <u>50,467</u> |
| Nonoperating revenues (expenses): | | | | |
| State grant revenue | - | 28,263 | 28,263 | - |
| Interest on investments | 76,863 | 20,419 | 97,282 | 41,025 |
| Interest and fiscal charges | (262,029) | (924,858) | (1,186,887) | (72,880) |
| Gain on sale of fixed assets | 1,936 | - | 1,936 | 8,930 |
| Total nonoperating revenue (expenses) | <u>(183,230)</u> | <u>(876,176)</u> | <u>(1,059,406)</u> | <u>(22,925)</u> |
| Income (loss) before contributions and transfers | (765,337) | (1,041,068) | (1,806,405) | 27,542 |
| Transfers in | 79,000 | 20,000 | 99,000 | - |
| Transfers out | (55,000) | (7,000) | (62,000) | - |
| Change in net assets | <u>(741,337)</u> | <u>(1,028,068)</u> | <u>(1,769,405)</u> | <u>27,542</u> |
| Total net assets - beginning | <u>48,021,861</u> | <u>17,998,254</u> | <u>66,020,115</u> | <u>593,641</u> |
| Total net assets - ending | <u>\$ 47,280,524</u> | <u>\$ 16,970,186</u> | <u>\$ 64,250,710</u> | <u>\$ 621,183</u> |

The notes to the financial statements are an integral part of this statement.

CITY OF PORTAGE, MICHIGAN

Statement of Cash Flows Proprietary Funds

Fiscal Year Ended June 30, 2006

| | Business-type Activities | | | Governmental Activities |
|--|--------------------------|---------------------|---------------------|----------------------------|
| | Sewer Fund | Water Fund | Total | Internal Service Funds |
| OPERATING ACTIVITIES: | | | | |
| Cash received from customers | \$ 4,709,014 | \$ 3,783,549 | \$ 8,492,563 | \$ 2,272,383 |
| Cash payments to suppliers | (4,304,789) | (1,933,705) | (6,238,494) | (1,335,353) |
| Cash payments to employees for services | (359,527) | (433,935) | (793,462) | (368,563) |
| Cash provided by operating activities | <u>44,698</u> | <u>1,415,909</u> | <u>1,460,607</u> | <u>568,467</u> |
| NONCAPITAL FINANCING ACTIVITIES: | | | | |
| Transfer from other funds | 79,000 | 20,000 | 99,000 | - |
| Transfer to other funds | (55,000) | (7,000) | (62,000) | - |
| Cash provided by capital and related financing activities | <u>24,000</u> | <u>13,000</u> | <u>37,000</u> | <u>-</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | | | |
| Issuance of debt | 609,637 | 1,160,000 | 1,769,637 | 136,537 |
| Capital grants | - | 28,263 | 28,263 | - |
| Proceeds from sale of capital assets | 1,936 | - | 1,936 | 17,305 |
| Acquisition and construction of capital assets | (52,385) | (629,000) | (681,385) | (179,692) |
| Principal paid on bonds, notes and capital lease | (445,630) | (1,111,185) | (1,556,815) | (301,157) |
| Interest and fiscal charges paid on bonds | (248,618) | (897,406) | (1,146,024) | (72,341) |
| Cash (used) in capital and related financing activities | <u>(135,060)</u> | <u>(1,449,328)</u> | <u>(1,584,388)</u> | <u>(399,348)</u> |
| INVESTING ACTIVITIES: | | | | |
| Interest on investments | 76,863 | 20,419 | 97,282 | 41,025 |
| Cash provided by investing activities | <u>76,863</u> | <u>20,419</u> | <u>97,282</u> | <u>41,025</u> |
| Net increase (decrease) in cash and cash equivalents | 10,501 | - | 10,501 | 210,144 |
| Cash and investments - beginning of year | 2,444,225 | 100,000 | 2,544,225 | 990,603 |
| Cash and investments - end of year | <u>\$ 2,454,726</u> | <u>\$ 100,000</u> | <u>\$ 2,554,726</u> | <u>\$ 1,200,747</u> |
| Reconciliation of operating income to cash provided by operating activities: | | | | |
| Operating income (loss) | \$ (582,107) | \$ (164,892) | \$ (746,999) | \$ 50,467 |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities: | | | | |
| Depreciation | 749,335 | 657,245 | 1,406,580 | 405,038 |
| Decrease in accounts receivable | (235,500) | (46,743) | (282,243) | 631 |
| (Increase) in inventory | - | - | - | 2,290 |
| (Increase) in prepaid costs | (10,852) | (11,800) | (22,652) | (5,478) |
| Increase (decrease) in accounts payable | 69,197 | 43,140 | 112,337 | (37,411) |
| Increase in checks issued against future deposits | - | 962,307 | 962,307 | - |
| (Decrease) in deferred revenue | 65,800 | (10,744) | 55,056 | - |
| Increase (decrease) in accrued compensation | (11,175) | (12,604) | (23,779) | 152,930 |
| Cash provided by operating activities | <u>\$ 44,698</u> | <u>\$ 1,415,909</u> | <u>\$ 1,460,607</u> | <u>\$ 568,467</u> |

The notes to the financial statements are an integral part of this statement.

CITY OF PORTAGE, MICHIGAN

Statement of Fiduciary Net Assets Fiduciary Funds

June 30, 2006

| <u>ASSETS</u> | Pension and Employee Benefit Trust Funds | Agency Funds |
|---|---|------------------|
| Cash and investments | \$ 2,090 | \$ 801,770 |
| Cash and investments - non-pooled | 1,742,079 | |
| Investments in fixed income securities | 3,390,348 | - |
| Accounts receivable | - | 418,753 |
| Accrued interest receivable | - | 433,933 |
| Total assets | <u>5,134,517</u> | <u>1,654,456</u> |
| <u>LIABILITIES</u> | | |
| Checks issued against future deposits | - | 290,648 |
| Payroll withholdings payable | - | 99,585 |
| Accrued interest payable | - | 433,933 |
| Due to other governments | - | 646,871 |
| Deposits | - | 183,419 |
| Total liabilities | <u>-</u> | <u>1,654,456</u> |
| <u>NET ASSETS</u> | | |
| Assets held in trust for pension benefits | 3,390,348 | - |
| Assets held in trust for retiree benefits | 1,744,169 | - |
| Total net assets | <u>\$ 5,134,517</u> | <u>\$ -</u> |

The notes to the financial statements are an integral part of this statements.

CITY OF PORTAGE, MICHIGAN

Statement of Changes in Fiduciary Net Assets Pension Trust Funds

Fiscal Year Ended June 30, 2006

| | Pension and Employee Benefit Trust Funds |
|---|---|
| ADDITIONS | |
| Employer contributions | <u>\$ 427,320</u> |
| Investment income | |
| Net decrease in the fair value of investments | (323,174) |
| Interest income | <u>233,530</u> |
| Net investment income | <u>(89,644)</u> |
| Total additions | 337,676 |
| DEDUCTIONS | |
| Benefits to plan members | (207,018) |
| Administrative expenses | <u>(10,703)</u> |
| Total deductions | <u>(217,721)</u> |
| Change in net assets | 119,955 |
| Net assets - beginning | <u>5,014,562</u> |
| Net assets - ending | <u><u>\$ 5,134,517</u></u> |

The notes to the financial statements are an integral part of this statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Portage was incorporated December 31, 1963, under the provisions of Act 279, P.A. 1909, as amended (Home Rule City Act). The City operates under a Council-Manager form of government, and provides services as authorized by its charter. The City Council is composed of a Mayor and six Councilmembers. The Mayor is elected for a two-year term, and the Councilmembers are elected at large for four-year staggered terms without term limits.

The City engages in a comprehensive range of municipal services including public safety, streets and highways, parks and facility management, and general administrative services. In addition, the City owns and contracts the operation of certain major enterprise activities including water and wastewater utilities. These activities are included in the accompanying financial activities.

The Charter of the City of Portage requires an annual audit by an independent certified public accountant. The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting and reporting policies and practices used by the City are described below.

As a local government, the City is exempt from federal income taxes under Internal Revenue Code Sections 115 and 501(a), and from state sales tax.

A. Reporting Entity

As required by generally accepted accounting principles (GAAP), these financial statements present the City (the Primary Government) and its component units, entities for which the City is considered to be financially accountable. The City is considered financially accountable for a component unit if it appoints a voting majority of the organization's governing body and it is able to impose its will on the organization by significantly influencing the programs, projects, activities, or level of services performed or provided by the organization, or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the City. Blended component units, although legally separate entities are, in substance, part of the City's operations, and data from these units are combined with data of the City. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide statements to emphasize that they are legally separate from the primary government. Each discretely presented component unit has a June 30 fiscal year-end.

Blended Component Units:

Building Authority - The Building Authority was established by the City on May 2, 1969 under the authority contained in Act 31, Michigan Public Acts of 1948, as amended in 1969 and 1984. The Act authorized the City to incorporate an authority for the purpose or purposes as follows: to build, acquire, furnish, equip, own, improve, enlarge, lease, operate, and maintain a building or buildings, automobile parking lots or structures, recreational facilities, stadiums and the necessary site or sites therefore, together with appurtenant properties and facilities necessary or convenient for the effective use thereof, for use for any legitimate public purpose of the City of Portage. The governing body of the Authority is known as the "Commission" and consists of the City Manager, City Finance Director and the Chairperson of the Board of the Local Development Finance Authority for the City of Portage. The Building Authority is a blended component unit because, although the governing bodies of the City and the Authority are not similar, the services and benefits provided to entities other than the City are insignificant. That mandates treatment as a blended component unit under GAAP.

Downtown Development Authority - The Downtown Development Authority was established by the City on April 21, 1998 under the authority contained in Act No. 197 of the Public Acts of Michigan of 1975 as amended. The act authorizes the City to provide for the creation of the authority; to define the boundaries of the downtown development district; to correct and prevent deterioration in the central business district; and to authorize the issuance of bonds and other evidences of indebtedness. The taxes collected on the

Note 1 Summary of Significant Accounting Policies, continued

increased taxable value resulting from Downtown Development Authority provided improvements are used to pay debt service. The Downtown Development Authority Board is comprised of the City Manager and eight citizen members appointed by the City Manager, subject to approval by the City Council. The Downtown Development Authority is a blended component unit because, although the governing bodies of the City and the Authority are not similar, the services and benefits provided to entities other than the City are insignificant.

Local Development Finance Authority - The Authority was established by the City on March 20, 1990, under the authority contained in Act 281 of Michigan Public Acts of 1986. The Act authorized the City to designate a specific district within its corporate limits as a Local Development Finance District. The Authority was appointed to promote the growth of specific, legally defined districts and take all steps necessary to create jobs and promote economic growth. The City Manager appoints seven members of the Authority Board of Directors. The other four members of the board of directors are appointed by Kalamazoo County (1), Kalamazoo Valley Community College (1), and Portage Public Schools (2). The Local Development Finance Authority is a blended component unit because, although the governing bodies of the City and the Authority are not similar, the City Manager appoints the voting majority of the governing body and may therefore impose the City's will on the organization. Further, because the City is financially responsible for the Authority, and because the Authority acts only to further the development aims of the consolidated plan of the City, the services and benefits provided to entities other than the City are insignificant.

Discretely Presented Component Units:

Complete financial statements for the discretely presented component units can be obtained from the Department of Community Development, City of Portage, 7900 South Westnedge Avenue, Portage, Michigan 49002.

Economic Development Corporation - The Corporation was established by the City on November 21, 1978, under the authority contained in Act 338, Michigan Public Acts of 1974. The purpose of the Corporation is to promote the economic development of the community. To achieve this purpose, the Corporation issues bonds to private business and industry to finance projects that reduce unemployment and otherwise strengthen and revitalize the local economy. The City Council of the City of Portage appoints the Economic Development Corporation Board of Directors. Because the City appoints the voting majority of the governing body and may therefore impose its will on the organization, it has been presented as component unit. It is not a blended component unit under GAAP because the component unit's governing body is not substantially the same as the primary government, and the benefits provided to entities other than the City are significant.

Tax Increment Finance Authority - The Authority was established by the City on September 3, 1985, under the authority contained in Act 450, Michigan Public Acts of 1981. The Act authorized the City to designate a specific district within its corporate limits as a Tax Increment Finance Authority District. The Authority is appointed to preside over this specific district and it is authorized to formulate plans and secure financing for public improvements, economic development, neighborhood revitalization and historic preservation within this area. These plans must be set forth in a tax increment financing plan which must be approved by the governing body of the City. The City Council of the City of Portage also appoints the Tax Increment Finance Authority Board of Directors. Because the city appoints the voting majority of the governing body and may therefore impose its will on the organization, and because the City is financially responsible for the Tax Increment Financing Authority, it is presented as a component unit. It is not a blended component unit under GAAP because the component unit's governing body is not substantially the same as the primary government, and the benefits provided to entities other than the City are significant. However, since the Authority had no activity during the fiscal year, no data has been presented.

B. Basis of presentation – Government-wide Financial Statements

Government-wide and Fund Financial Statements - The basic financial statements include both government-wide and fund financial statements. The previous financial reporting model emphasized fund types, i.e., the total of all funds of a particular type, such as capital project funds. The new reporting model focus is on either the City as a whole or on major individual funds.

Note 1 Summary of Significant Accounting Policies, continued

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. Internal service fund asset and liability balances that are not eliminated in the statement of net assets are reported in the governmental activities column on the government-wide statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of net assets includes governmental assets and liabilities previously reported in the general fixed asset account group and the general long term debt group, in addition to infrastructure assets.

The statement of activities demonstrates the degree to which the direct expenses of a function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Certain indirect costs are included in the program expenses of most business-type activities. Program revenues include 1) charges to customers who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues.

The fund level statements focus on the governmental, proprietary and fiduciary funds. The accounts of the City are organized on the basis of funds. Each fund was established for the purpose of accounting for specific activities in accordance with applicable regulations, restrictions or limitations. Major individual governmental funds and major individual enterprise funds are supported as separate columns in the fund financial statements.

The city's fiduciary funds, which have been redefined and narrowed in scope, are presented in the fund financial statements by type (pension, private purpose and agency). By definition, these assets are held for the benefit of a third party and cannot be used to address activities or obligations of the government, and are therefore not included in the government-wide statements. The activities of these funds include administration of the defined benefit pension trust and retiree health care liability fund, as well as the administration of the Cemetery Permanent fund, the Historic Book fund, and the CDBG Program Income fund. Because the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented which briefly explains the adjustments necessary to reconcile the fund financial statements to the governmental column of the government-wide financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the flow of economic resources management focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available. Revenues, other than grants, are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period (defined by the City as collected within 60 days of year-end). Revenues billed under a contractual agreement with another governmental entity, including federal and state grants, are recognized when billed and when all eligibility requirements of the provider have been met and are considered to be available if expected to be collected within one year. Expenditures generally are recorded when a liability is incurred. However, expenditures related to compensated absences or arbitrage are recorded when the liability is matured. Debt service expenditures are recognized when payment is matured. The reported fund balance of governmental funds is considered a measure of available expendable resources.

Property taxes, franchise fees, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Note 1 Summary of Significant Accounting Policies, continued

The City reports the following major governmental funds:

General Fund: The general fund is the primary operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. It includes the following activities: public safety, streets and highways, parks and facility management, and general government.

Special Assessment Fund: Although no longer required as an individual governmental fund-type after GASB Statement No. 6, *Accounting and Reporting for Special Assessments*, the City utilizes special assessments under its Charter to balance the cost of certain public improvements between private benefit and public burden, and chooses to emphasize the difference between special assessment debt and other debt issues by continuing to maintain this fund type. The public improvements subject to special assessment primarily benefit a particular property owner or group of property owners, ultimately increasing the fair market value of their property. The property owners pay the assessment over a 10-year term for street improvements, and over a 20-year term for water and sewer improvements, unless sooner paid. The activities performed by the City with regard to Special Assessments include organizing special assessment districts, overseeing the performance of the project itself, and accounting for and collecting the assessments to pay any debt incurred to finance the project.

Capital Improvement Program (CIP) Fund: The City assesses a dedicated tax millage to support a balanced capital investment program. The program constructs, improves and maintains the highest level of public infrastructure and community resources. The fund accounts for the collection of dedicated tax revenues, and for financing the construction of all City capital projects in excess of \$10,000. These projects include creation of or improvements to streets, parks, city buildings, and other city facilities not owned or used by the Water and Sewer utility enterprises.

Major Streets Fund: This fund accounts for the maintenance of major streets, as certified by the state highway commissioner, and trunklines within the City. Primary funding is from special revenues provisions of Act 51 of 1951, as amended, of the state of Michigan. This fund does not meet the criteria of a major fund as defined by GASB, but the state of Michigan requires that it be presented as a major fund.

Local Streets Fund: This fund accounts for the maintenance of all local streets, as certified by the state highway commissioner. It is funded by special revenues from provisions of Act 51 of 1951, as amended, of the state of Michigan. This fund does not meet the criteria of a major fund as defined by GASB, but the state of Michigan requires that it be presented as a major fund.

Proprietary and fiduciary fund financial statements are accounted for on the economic resources measurement focus and the accrual basis of accounting. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations, such as providing water and wastewater services. Other revenues or expenses are non-operating items.

The City reports the following major enterprise funds, which are also considered proprietary funds:

Sewer Fund - Accounts for the activities of the City-owned wastewater utility.

Water Fund - Accounts for the activities of the City-owned water utility.

In addition, the City reports the following non-major governmental funds:

Special revenue funds account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes, including grant funds. These include cultural activities, cable television, Community Development Block Grant (CDBG), Local Development Finance Authority, West Lake weed management, curbside recycling, and the leaf pickup fund.

Debt Service Funds account for resources accumulated and payments made for general long-term debt.

Note 1 Summary of Significant Accounting Policies, continued

Permanent Funds account for resources that are legally restricted to the extent that restrictions apply as to whether only earnings and not principal may be used for the limited and specific purposes that support the City's programs. Permanent funds account for Cemetery Perpetual Care and CDBG Program Income related activities.

The City reports the following proprietary and fiduciary funds:

Enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises. Costs are financed or recovered primarily through user charges. The City has elected to follow GASB statements issued after November 30, 1989, rather than statements issued by the Financial Accounting Standards Board (FASB), in accordance with GASB Statement No. 20. The Sewer and Water funds are the City's only enterprise funds. The City reports no nonmajor enterprise funds.

Internal Service Funds account for the financing of goods or services provided by one City department or agency to other City departments or agencies or to other governmental units on a cost-reimbursement basis. These activities include, but are not limited to, fleet services. As a general rule, the effect of interfund activity has been eliminated for government-wide reporting purposes. These funds are presented on a combined basis in the Statement of Net Assets – Proprietary Funds in the Internal Service Funds column and in detail in the Combining Statements of Net Assets – Internal Service Funds. These funds include the equipment and insurance funds.

Fiduciary Funds account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations or other governments. Fiduciary funds are not included in the government-wide financial statements. The fiduciary funds of the City include the pension trust fund and retiree health care fund. These funds are accounted for in essentially the same manner as governmental funds.

Agency funds account for net assets held on behalf of others, are purely custodial (assets equal liabilities) and do not involve the measurement of results of operations. The agency funds of the city include the following: Current Year Tax Collection fund, accounting for tax funds collected and distributed; the Investment Interest Allocation fund, holding the accrued and liquid interest earnings on the pooled investments of the city; the Payroll fund, collecting and allocating insurance and other payroll-related costs; a general Trust and Agency fund, holding various deposits for bid, bail, and construction bonds; and the Historic Book fund, collecting and forwarding funds on behalf of the author of a book about Portage's past.

D. Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- (a) Prior to April 15, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing July 1. The proposed operating budget includes proposed expenditures and the means of financing them, and is adopted at the "activity" level with the exception of the capital improvement fund, which is adopted at the "project" level.
- (b) Public hearings are conducted to obtain taxpayer comments.
- (c) The budget is legally enacted through passage of an ordinance no later than the second Monday in June.

Annual budgets are legally adopted for the general fund, certain special revenue funds and debt service funds. Annual budgets are adopted for the enterprise funds, internal service fund, cemetery perpetual fund, and CDBG program income funds, although they are not legally required. Multi-year budgets are adopted for capital projects and grant funds, where appropriations remain authorized for the life of the project, irrespective of fiscal year. Expenditures are appropriated on a modified accrual basis, except that commitments related to purchase orders are treated as expenditures in the year of commitment.

Formal budgetary control is employed during the year at the fund and department level as a management control device for annually budgeted funds.

Budgets are modified throughout the year. The City Manager is authorized to transfer appropriation balances within a fund and department of the City. The City Council must approve amendments to the budget and transfers of appropriations from one fund to another, or that would cause a change in fund balance.

Note 1 Summary of Significant Accounting Policies, continued

The original and final budgets for the General Fund are reported in the Statement of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual. Unencumbered appropriations for annual budgets lapse at fiscal year-end.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the governmental funds. Encumbrances outstanding at year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities. Unencumbered appropriations lapse at year-end in the General Fund. Appropriations which are encumbered at year-end are carried forward into the following year's appropriation, with the approval of City Council, to allow liquidation of the encumbrance.

E. Financial Statement Elements

Pooled Investments and Cash Deposit Balances - Cash balances of all City funds (except for certain funds having non-pooled investments) are pooled and invested. Investments purchased with pooled cash, consisting primarily of high-grade commercial paper and U.S. agency obligations, are stated at fair value. Interest earned on investments purchased with pooled cash is allocated monthly to each participating fund based upon the fund's average daily balance. Funds that incur a negative balance in pooled cash and investments are not allocated interest earnings nor charged interest expense.

Investments - Certain investments are required to be reported at fair value, based upon quoted market prices. Realized gains or losses resulting from the sale of investments are determined by the specific cost of the securities sold. The City carries all of its investments at fair value as of June 30, 2006.

Accounts Receivable - Balances of accounts receivable, reported on the government-wide statement of net assets, are aggregations of different components such as charges for services, fines, and balances due from taxpayers or other governments. In order to assist the reader, the following information has been provided regarding significant components of receivable balances as of June 30, 2006:

| | <u>Charges for Services</u> | <u>Special Assessments</u> | <u>Other Governments</u> | <u>Total</u> |
|--------------------------------|---------------------------------|--------------------------------|------------------------------|---------------------|
| Governmental Activities | | | | |
| General Fund | \$ 1,436,966 | \$ 3,561,569 | \$ 1,100,130 | \$ 6,098,665 |
| Non-major government funds | - | - | 122,719 | 122,719 |
| Total | <u>\$ 1,436,966</u> | <u>\$ 3,561,569</u> | <u>\$ 1,222,849</u> | <u>\$ 6,221,384</u> |

There is no provision for an allowance for doubtful accounts because Kalamazoo County guarantees payment of real property taxes, and the Ordinances of the City provide for the creation of durable tax liens for all taxes, assessments and charges putting the City in the position of eventual 100% collection.

Business-type activities are primarily comprised of charges for services.

Elimination of Internal Activities - The elimination of internal service fund activity is needed in order to eliminate duplicate activity in making the transition from fund level financial statements to the government-wide financial statements. In addition, the elimination of internal service fund activity requires the city to "look back" and adjust the internal service funds' internal charges. A positive change in net assets derived from internal service fund activity results in a pro rata reduction in the charges made to the participatory funds. A deficit change in net assets of internal service funds requires a pro rata increase in the amounts charged to the participatory funds.

Internal Balances - In the government-wide statement of net assets, internal balances are the receivables and payables between the governmental and business-type activities. There were no internal balances as of June 30, 2006.

Note 1 Summary of Significant Accounting Policies, continued

Interfund Activities - In the government-wide statement of activities, the effect of interfund activity has generally been removed from the statements. Exceptions include the charge back of services, such as utilities or vehicle maintenance, and charges for central administrative costs. Elimination of these charges would distort the direct costs and program revenues of the various functions reported. The City recovers indirect costs that are incurred through a plan of allocation utilizing actual costs. These amounts are eliminated in the government-wide statement of activities.

Interfund Receivables/Payables - During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivable and payable balances are classified as "due from other funds" or "due to other funds" on the fund-level statements when they are expected to be liquidated within one year. If receivable or payable balances are expected to be liquidated after one year, they are classified as "advances to other funds" or "advances from other funds." No interfund receivables existed as of June 30, 2006.

Inventories - Inventories are valued at the lower of cost (first-in - first-out) or market. Inventories for all funds use the consumption method and expenditures are recorded when issued. The Equipment Fund holds the only inventory maintained by the City.

Prepaid expenses and other assets - The governmental activities statement of net assets includes prepaid expenses and other assets. Fund balance is reserved for prepaid expenses; fund balance is not reserved for other assets.

Restricted assets - Restricted assets are assets whose use is subject to constraints that are either (a) externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

The balance of restricted asset accounts in the enterprise funds are as follows:

| | <u>Business-Type Activities</u> | | Total Restricted Assets |
|-------------------------|---------------------------------|------------|-------------------------|
| | Sewer | Water | |
| Revenue bond indentures | \$ 100,000 | \$ 100,000 | \$ 200,000 |

Capital assets - Capital assets, which include land, facilities and improvements, machinery and equipment and infrastructure assets, are reported in the applicable governmental or business-type activity columns of the government-wide statement of net assets, and related depreciation is allocated to programs in the statement of activities. Capital assets are defined as assets with an initial individual cost of \$5,000 or more and an estimated useful life of greater than one year. Assets purchased or constructed are capitalized at historical cost. Contributed capital assets are recorded at estimated fair market value at the time of receipt or at historical cost if historical cost is available. Capital outlay (asset purchases that do not meet the definition of a capital asset) is recorded as an expenditure in the general fund and other governmental funds, and as an asset in the government-wide financial statements and proprietary funds. Maintenance and repairs are charged to operations as incurred, and improvements and betterments that extend the useful lives of capital assets are capitalized. The City has adopted and implemented GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. No material impairments requiring disclosure or restatement of previously issued financial statements existed at the adoption date. No material impairments existed as of the statement date.

The City obtains public domain capital assets (infrastructure) through capital improvement project (CIP) construction, or through annexation or developer contribution. Infrastructure consists of certain improvements other than buildings, including streets and roads, bridges, pedestrian facilities, drainage systems and traffic signal systems.

Interest is not capitalized on governmental capital assets. For enterprise funds, interest paid on long-term debt in the enterprise funds is capitalized when it can be attributed to a specific project and when it materially exceeds the interest revenue generated by bond proceeds issued to fund the project.

Note 1 Summary of Significant Accounting Policies, continued

Capital assets are depreciated using the straight-line method over the following estimated useful lives (in years):

| Assets | Governmental Activities ⁽¹⁾ | Business-Type Activities | |
|------------------------------|---|--------------------------|-------|
| | | Sewer | Water |
| Buildings | 40 | 40 | 40 |
| Equipment | 5 | 5 | 5 |
| Vehicles | 5 | 5 | 5 |
| Improvements to grounds | 20 | 20 | 20 |
| Water and wastewater systems | - | 100 | 100 |
| Infrastructure | | | |
| Streets and roads | 20 | - | - |
| Retaining walls | 30 | - | - |
| Bridges | 50 | - | - |
| Drainage systems | 50 | - | - |
| Pedestrian facilities | 20 | - | - |
| Traffic signals | 20 | - | - |

⁽¹⁾ Includes internal service funds

Depreciation of assets is classified by functional components. The City considers land to be inexhaustible; and therefore, these assets are reported as non-depreciable. Unallocated depreciation reported in the government-wide statement of activities consists of depreciation of infrastructure assets of \$7,107,333.

In the government-wide and proprietary fund statements, the City recognizes a gain or loss on the disposal of assets when it retires or otherwise disposes of capital assets.

Deferred Charges or Credits - Deferred charges represent expenditure for expense prepayments that are distinguished from prepaid expenses on the basis of the time over which they will be recognized as period expenses. That is, they involve a longer period of time than prepaid expenses do. Deferred credits represent revenue received at fiscal year-end prior to the earning process being complete.

Short Term Debt – In February of 2005 (fiscal year 2004/2005), the city issued \$1,055,000 in bond anticipation notes to finance improvements at a busy intersection in the heart of the city. Due in February of 2008, the notes will be replaced by long term debt. These anticipation notes represent the only short term debt held by the city.

| | |
|---------------------------|-------------|
| Balance at June 30, 2005: | \$1,055,000 |
| Increases/decreases: | -0- |
| Balance at June 30, 2006: | \$1,055,000 |

Long Term Debt - The debt service for general obligation bonds and other general obligation debt, including loans, issued to fund general government capital projects is paid from tax revenues, interfund transfers and intergovernmental revenues. Such general obligation debt is reported in the government-wide statements under governmental activities.

The debt service for general obligation bonds and other general obligation debt issued to fund proprietary fund capital projects is normally paid from the net revenues of the applicable proprietary fund, although such debt will be repaid from tax revenues if necessary. Such general obligation debt is shown as a specific liability of the applicable proprietary fund, which is appropriate under generally accepted accounting principals and in view of the expectation that the proprietary fund will provide resources to service the debt.

Revenue bonds that have been issued to finance capital projects of certain enterprise funds are to be repaid from net revenues of these funds. Such debt is recorded in the funds. Operating revenues and interest income that are used as security for revenue bonds are reported separately from other revenues.

Note 1 Summary of Significant Accounting Policies, continued

The City defers and amortizes gains or losses realized by proprietary funds on refundings of debt and for governmental activities in the government-wide financial statements, and reports both the new debt liability and the related deferred amount on the funds' balance sheets. The City recognizes gains or losses on debt defeasance when funds from current operations are used.

Operating Revenues - Revenues are recorded net of allowances in the government-wide and proprietary fund-level statements. No allowances were necessary for the year ended June 30, 2006.

Interfund Revenues, Expenses and Transfers - Transactions between funds that would be treated as revenues, expenditures, or expenses if they involved organizations external to the governmental unit are accounted for as revenues, expenditures, or expenses in the funds involved, such as billing for utility services. Transactions between funds that constitute reimbursements for expenditures or expenses are recorded as expenditures or expenses in the fund that is reimbursed. Transfers between funds are reported in the operations of governmental and proprietary funds.

Intergovernmental Revenue, Receivables and Liabilities - Intergovernmental revenues and related receivables arise primarily through funding received from federal grants and state grants. These revenues and receivables are earned through expenditure of money for grant purposes, or through consolidating settlements while acting as tax collection agency for other local government units. Intergovernmental liabilities arise primarily from funds held in an agency capacity for other local government units.

Federal and State Grants, Entitlements and Shared Revenues - Grants, entitlements, and shared revenues may be accounted for within any City fund. The purpose and requirements of each grant, entitlement, or shared revenue are analyzed to determine the appropriate fund statement and revenue category in which to report the related transactions. Grants, entitlements and shared revenues received for activities normally recorded in a particular fund may be accounted for in that fund, provided that applicable legal restrictions can be satisfied.

Revenues received for activities normally recorded in other governmental funds are accounted for within the nonmajor governmental fund groupings: federal grant funds, state grant funds, and other special revenue funds. Capital grants restricted for capital acquisition or construction, other than those associated with proprietary type funds, are accounted for in the applicable capital projects funds. Revenues received for operating activities of proprietary funds or revenues that may be used for either operations or capital expenditures at the discretion of the City are recognized in the applicable proprietary fund.

Restricted Resources - When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as they are needed.

Reservations of Fund Equity - Reservation of fund balances of the governmental funds indicate that portion of fund equity which is not available for appropriation for expenditure or is legally restricted by outside parties for use for a specific purpose. Designations of fund balance are the representations of management for the utilization of resources in future periods. Reserves for police safety training are legally restricted to those purposes by the grantor.

Cash and Investments - For purposes of the statement of cash flows, the city considers cash and investments to consist of currency on hand, cash held by trustee, demand deposits with banks, invested funds, and all amounts included in pooled investments and cash accounts.

Pension Costs - It is the policy of the City to fund pension costs annually. Pension costs are composed of normal cost and, where applicable, amortization of unfunded actuarial accrued liability and of unfunded prior service cost (see defined benefit pension plan information in Note 11, and defined contribution pension plan information in Note 12).

Risk Management - The City is exposed to employee-related risks for workers' compensation, as well as to various risks of loss related to torts, including medical malpractice; theft of, damage to, or destruction of assets, errors and omissions, and natural disasters. The City continues to be self-insured for liabilities for workers' compensation claims with stop-loss provisions in place (Note 10.B.).

Note 1 Summary of Significant Accounting Policies, concluded

The City participates in a risk pool administered by the Michigan Municipal Risk Management Association for coverage to insure against property loss or damage, commercial crime, and fidelity bonds. The City complies with GASB Statement No. 10, *Accounting and reporting for Risk Financing and Related Insurance Issues* (See Note 10.B.).

F. Comparative Data

Governments are required to present comparative data only in connection with Management's Discussion and Analysis (MD&A). They may also present comparative data on the government-wide statement of activities. Comparative data is presented as part of the MD&A.

G. Use of Estimates

The preparation of financial statements in conformity with accounting principals generally accepted in the United States of America requires management to make estimates and assumptions that affect the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

H. Compensated Absences

City employees are granted compensated absences for vacation and sick leave in varying amounts based on length of service. It is the City's policy to permit employees to accumulate a limited amount of earned but unused annual and sick leave benefits, which will be utilized in future periods or will be paid to employees upon separation from City service. The estimated long-term liability for vacation and sick pay which will be paid with future Governmental-type operating resources is recorded as general long term debt. The total estimated long-term cost of employees' accumulated vacation and sick leave was approximately \$1,911,958 at June 30, 2006.

I. Post-Retirement Benefits

In addition to the pension benefits described in Notes 11, 12, and 13 the City provides post-retirement health care benefits under the varying terms of a number of separate union contracts, and under the employee benefit program of the City as it has existed over the years when the entitlement occurred. Currently 15 retirees meet the applicable eligibility requirements, although an average of 18 were eligible during the fiscal year. Expenditures for post-retirement health care benefits are currently recognized on a pay-as-you-go basis as the premiums for coverage are paid. During the year ended June 30, 2006, expenditures of approximately \$117,000 were recognized for post-retirement health insurance premiums. Contractual payments were made directly to certain unions that negotiated to assume full responsibility for future health care benefit obligations of their members. Annual increases in premium rates for this benefit sector in the several plans the City is obligated to provide have ranged from 6% to 29% over the past several years. In anticipation of the adoption of Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions* in the fiscal year ending June 30, 2007, the City has pre-funded actuarially determined estimates of future liabilities for retiree health care benefits.

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Schedules that show the adjustments required to take the figures in the government-wide statements to those in the governmental fund statement presentation immediately follow those statements.

3. POOLED INVESTMENTS AND CASH

The following summarizes the amounts of the pooled investments and cash by fund at June 30, 2006:

| Pooled Investments and Cash | | | | |
|------------------------------------|--|--|--|-------------------|
| | <u>Unrestricted, invested</u> | <u>Restricted, invested</u> | <u>Other cash & adjustments</u> | Total |
| General fund | \$4,065,163 | - | \$ 4,529 | \$4,069,692 |
| Special assessments fund | 4,418,861 | - | - | 4,418,861 |
| Capital improvement fund | 3,268,734 | - | 25,414 | 3,294,148 |
| Streets funds | 443,590 | - | - | 443,590 |
| Non-major governmental funds | 3,183,233 | - | 400 | 3,183,633 |
| Agency and trust funds | 803,860 | - | - | 803,860 |
| Internal service funds | 1,200,747 | - | - | 1,200,747 |
| Sewer fund | 2,352,286 | 100,000 | 2,440 | 2,454,726 |
| Water fund | - | 100,000 | 3,817 | 103,817 |
| Totals | <u>19,736,474</u> | <u>200,000</u> | <u>36,600</u> | <u>19,973,074</u> |
| Total invested cash (book value) | | <u>19,936,474</u> | | |

Other cash includes retainage held in escrow and petty cash.

The Pension and Employee Benefit Trust Funds' investment in fixed income securities of \$3,390,348 and the Retiree Health Care funds investment of \$1,742,079 with the Municipal Employee's Retirement System of Michigan are excluded from the above as the result of not being pooled investments and cash. Component unit cash as of June 30, 2006, totaled \$18,325.

4. DEPOSITS AND INVESTMENTS

The City maintains a pool of cash and investments in which each fund participates on a dollar equivalent and daily transaction basis. Interest is distributed monthly based on average monthly balances. A "zero balance account" mechanism provides for overnight sweeps of deposits made to the City depository account, and the outstanding balance in the accounts payable checking account, resulting in an instantaneous transfer to the investment account. Thus, the majority of funds in the City's operating accounts are invested at all times.

A. Investments

The City's deposits and investments are invested pursuant to the City of Portage investment policy. The objective of the policy is, in order of priority, preservation of capital, liquidity and yield. The policy addresses the soundness of financial institutions in which the City will deposit funds, diversification of the portfolio composition, and the permitted types of investment instruments. The terms of policy are informed by the provisions of Chapter 129, Public Funds, of the Michigan Compiled Laws and permit investment in:

1. Certificates of deposit issued by banks located in Michigan;
2. U.S. Treasury and agency obligations;
3. Commercial paper at the two highest rating levels;
4. Domestic bankers acceptances
5. U.S. Treasury or agency backed repurchase agreements, and
6. PA 20 qualified local government investment trusts and mutual funds

Further, the City assumes that its callable investments will not be called, and that all investments will be held to maturity.

The City participates in a local government investment trust, CLASS, managed by MBIA, Municipal Investors Service Corporation. Overnight operating account balances are invested in the Comerica Bank "J" fund. The City owns 1:1 dollar interests in each fund. Both pools are composed of investment vehicles that are permissible under state of Michigan law for municipal government, and would qualify for direct investment by the City. The fair value of the City's position in these funds is equivalent to the carrying value, and, as such, is included in the cash and pooled funds category.

Pension trust fund investments, a fiduciary fund not included in the government-wide statements, must conform to the limits and standards set forth in Michigan Public Act 55 of the Public Acts of 1982, as amended, and Public Act 252 of 1988. Its' corpus is held by, and its' assets are managed by Principal Financial Group, Inc.

The component unit's funds are included in the City's pooled cash funds, and partake ratably in the City's investment portfolio.

As of June 30, 2006, the City had the following investments:

| Investment Type | Fair Value | Effective Duration |
|---|----------------------|---------------------------|
| Certificate of Deposit | \$ 3,070,977 | 0.042 |
| U.S. Government Agencies | 7,643,685 | 0.619 |
| Commercial Paper | 3,254,445 | 0.106 |
| Investment Pools | 1,295,665 | 0.000 |
| Total Fair Value | <u>\$ 15,264,772</u> | |
| Portfolio weighted average maturity - 0.372 | | |

Interest Rate Risk. In accordance with its investment policy, the city minimizes investment rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates. The investment portfolio is structured so that securities mature to meet known cash requirements for ongoing operations, and the maturity of investments is limited to less than six years.

Credit Risk. The investment policy limits investments in commercial paper to those rated in the two highest classifications by nationally recognized statistical ratings organizations. As of June 30, 2006, investments in commercial paper were rated A1 by Standard and Poor's, F-1 by Fitch Ratings, and P-1 by Moodys Investors Service. As of June 30, 2006, the investments in the MBIA CLASS and the Comerica Bank "J" Fund investment pools were not rated.

Concentration of Credit Risk. The City minimizes the concentration of credit risk, which is the risk of loss attributed to the magnitude of investment in a single issuer. The investment policy requires diversification of the portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. The investment policy criteria relating to the various forms of credit risk are as follows:

| Investment type | Type, % of Portfolio Limit | Issuer/Broker, % of Portfolio Limit |
|---|-----------------------------------|--|
| Certificate of Deposit | may not exceed 60% | may not exceed 40% |
| U.S. Treasury and Agency | no limit | may not exceed 40% with one broker |
| Commercial Paper | may not exceed 70% | may not exceed 15% |
| Bankers Acceptances | no limit | may not exceed 40% with one bank |
| Repurchase Agreements | may not exceed 10% | may not exceed 40% with one bank |
| Mutual Fund/Local Govt Investment Pools | may not exceed 80% | may not exceed 40% |

Custodial Credit Risk - Investments. For an investment, this is the risk that, in the event of a failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. It is the policy of the City to minimize custodial credit risk for both investments and cash deposits. The City has a zero custodial credit risk exposure as of June 30, 2006, because all securities are registered, and are held by brokerage firms that are also the counterparty for these investments. Cash deposits are maintained at less than the FDIC insurance limits, and therefore have zero custodial credit risk as well.

Foreign Currency Risk. The City is not authorized to participate in investments that have this type of risk.

B. Deposits

Primary Government

At year end, the uninvested carrying amount of the City deposits was \$50,000, the total book balance in the operating and overnight governmental cash investment fund was \$1,238,503 and the bank account balance was \$2,530,337. Compensating balances of \$25,000 are held in the depository account and the accounts payable checking account, making the overnight sum held by the bank \$50,000. The \$50,000 is within the \$150,000 coverage limit for FDIC insurance. The overnight sweep is invested in a governmental cash investment fund that meets the criteria for local government investment pools outlined in Public Act 367. Funds deposited in

accordance with the requirements of Public Act 367 of 1982 are considered fully secured. No collateralization is required of the banking institution.

Component Units

The carrying value of deposits for the Economic Development Corporation was \$18,325. The Tax Increment Financing Authority is presently inactive, and has a zero deposit balance.

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of June 30, 2006, none of the City's deposits were exposed to custodial credit risk because the level of cash deposits are fully covered by FDIC insurance.

5. PROPERTY TAXES

Property taxes are levied and attach as an enforceable lien on property as of August 1, and are due on September 14 of each year. Real property taxes remaining unpaid on the following March 1 are turned over to the County Treasurer for collection and the City is paid in full for the taxes by the County. Therefore, amounts recorded as delinquent tax payments receivable represent only unpaid personal property taxes.

The City bills and collects its own property taxes and also collects taxes for the state education fund, district library, Kalamazoo county, community college, regional programs, and the school districts contained within the City corporate limits. Collection and remittance of the state education fund, district library, Kalamazoo county, community college, regional programs, and the school districts taxes are accounted for in the current year tax collection and in the trust and agency Funds. City property tax revenues are recognized when levied to the extent that they result in current receivables.

6. CAPITAL ASSETS AND INFRASTRUCTURE

Capital assets activity for the year ended June 30, 2006 was as follows:

Primary Government

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|----------------|-------------|-------------------|
| Governmental activities: | | | | |
| Capital assets, not being depreciated | | | | |
| Land | \$ 7,605,594 | \$ 359,305 | \$ - | \$ 7,964,899 |
| Rights-of-way | 4,379,048 | 38,145 | - | 4,417,193 |
| Total capital assets, not being depreciated | 11,984,642 | 397,450 | - | 12,382,092 |
| Capital assets, being depreciated | | | | |
| Land improvements | 6,304,339 | 114,459 | - | 6,448,798 |
| Buildings | 13,334,722 | 32,525 | - | 13,367,247 |
| Machinery and equipment | 5,890,943 | 160,949 | - | 6,051,892 |
| Vehicles | 7,727,580 | 279,296 | (100,622) | 7,906,254 |
| Infrastructure | 173,775,246 | 5,270,906 | - | 179,046,152 |
| Total capital assets, being depreciated | 207,032,830 | 5,888,135 | (100,622) | 212,820,343 |
| Less accumulated depreciation for: | | | | |
| Land Improvements | (2,683,757) | (270,464) | - | (2,954,221) |
| Buildings | (3,875,256) | (346,599) | - | (4,221,855) |
| Machinery and equipment | (4,689,654) | (452,315) | - | (5,141,969) |
| Vehicles | (4,893,511) | (870,082) | 77,593 | (5,686,000) |
| Infrastructure | (98,797,773) | (7,107,332) | - | (105,905,105) |
| Total accumulated depreciation | (114,939,951) | (9,046,792) | 77,593 | (123,909,150) |
| Total capital assets, being depreciated, net | 92,092,879 | (3,158,657) | (23,029) | 88,911,193 |
| Governmental activities capital assets, net | \$104,077,521 | \$ (2,761,207) | \$ (23,029) | \$ 101,293,285 |

Notes to Financial Statements
June 30, 2006

City of Portage, Michigan
(Continued)

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|--------------|-----------|-------------------|
| Business-type activities: | | | | |
| Capital assets, not being depreciated | | | | |
| Land | \$ 217,945 | \$ - | \$ - | \$ 217,945 |
| Total capital assets, not being depreciated | 217,945 | - | - | 217,945 |
| Capital assets, being depreciated | | | | |
| Land Improvements | 90,517 | - | - | 90,517 |
| Buildings | 1,089,501 | - | - | 1,089,501 |
| Machinery and equipment | 1,158,738 | 5,599 | (2,260) | 1,162,077 |
| Water and sewer system | 115,849,862 | 675,785 | - | 116,525,647 |
| Total capital assets, being depreciated | 118,188,618 | 681,384 | (2,260) | 118,867,742 |
| Less accumulated depreciation for: | | | | |
| Land improvements | (39,191) | (6,925) | - | (46,116) |
| Buildings | (590,445) | (34,909) | - | (625,354) |
| Machinery and equipment | (900,040) | (58,964) | 2,260 | (956,744) |
| Water and sewer system | (23,887,938) | (1,305,781) | - | (25,193,719) |
| Total accumulated depreciation | (25,417,614) | (1,406,579) | 2,260 | (26,821,933) |
| Total capital assets, being depreciated, net | 92,771,004 | (725,195) | - | 92,045,809 |
| Business-type activities capital assets, net | \$ 92,988,949 | \$ (725,195) | \$ - | \$ 92,263,754 |

Depreciation expense was charged to functions / programs of the primary government as follows:

| | |
|---|--------------|
| Governmental activities: | |
| General government | \$ 552,250 |
| Public safety | 910,040 |
| Streets and highways | 62,255 |
| Health & welfare | 18,511 |
| Parks/facility mgmt. | 396,403 |
| Unallocated depreciation | 7,107,333 |
| Total depreciation expense – governmental activities | \$ 9,046,792 |
| Business-type activities: | |
| Sewer | \$ 749,335 |
| Water | 657,245 |
| Total depreciation expense – business-type activities | \$ 1,406,580 |
| The component unit has no capital assets. | |

7. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund receivables and payables at June 30, 2006 totaled \$0.00.

Transfers between funds for the year ended June 30, 2006, were as follows:

| Transfers Out: | Transfers In: | | | | | | | | Total |
|-----------------------|---------------|---------------|---------------|------------------|---------------------|-----------------|-----------------|---------------|-----------|
| | General Fund | Major Streets | Local Streets | Non-major Govt'l | Capital Improvement | Sewer Operating | Water Operating | Cemetery Fund | |
| General Fund | - | - | - | 302,306 | - | - | - | 9,000 | 311,306 |
| Major Streets | 118,500 | - | - | - | - | - | - | - | 118,500 |
| Local Streets | 299,000 | 246,400 | - | - | - | - | - | - | 545,400 |
| Capital Improvement | - | 700,000 | - | - | - | 55,000 | 7,000 | - | 762,000 |
| Nonmajor Governmental | - | - | - | - | 3,956,500 | - | - | - | 3,956,500 |
| Sewer Operating | - | 19,500 | 19,500 | - | - | - | - | - | 39,000 |
| Total | 417,500 | 965,900 | 19,500 | 302,306 | 3,956,500 | 55,000 | 7,000 | 9,000 | 5,732,706 |

Interfund transfers are used to 1) move revenues from the fund with collection authorization to the debt service fund as debt service principal and interest payments become due, 2) move unrestricted general fund revenues to finance various programs that the government must account for in other funds, 3) transfer bond proceeds from the issuing fund to internal service funds to fund asset purchases, 4) provide remuneration to funds providing common services.

8. DEBT AND NON-DEBT LIABILITIES

Debt Issues: Long Term General Obligation bonds were issued as Series 2005A in the amount of \$7,300,000 to finance Capital Improvement projects. Local Development Finance Authority bonds in the amount of \$3,120,000 were issued for water and sewer lines, and road widening in the LDFA district. Special Assessment bonds were issued in the amount of \$280,000.

General Obligation bonds

| <u>Purpose</u> | <u>Interest rates</u> | <u>Amount</u> |
|--------------------------|-----------------------|---------------------|
| Governmental activities | 1.50%-6.75% | \$ 2,542,587 |
| Business-type activities | 1.50%-6.75% | 3,742,413 |
| | | <u>\$ 6,285,000</u> |

Annual debt service requirements to maturity for general obligation bonds:

| Year ending <u>June 30,</u> | Governmental Activities | | Business-type Activities | |
|--------------------------------|-------------------------|-----------------|--------------------------|-----------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> |
| 2007 | \$ 380,318 | \$ 94,757 | \$ 464,682 | \$ 163,453 |
| 2008 | 302,728 | 81,488 | 462,272 | 142,945 |
| 2009 | 303,054 | 69,568 | 426,946 | 122,905 |
| 2010 | 256,841 | 58,635 | 373,159 | 104,894 |
| 2011 | 222,984 | 49,653 | 317,016 | 89,361 |
| 2012-2016 | 535,704 | 151,924 | 1,254,296 | 259,050 |
| 2017-2021 | 399,398 | 58,882 | 405,602 | 71,023 |
| 2022-2026 | 141,560 | 4,565 | 38,440 | 4,020 |
| Totals | 2,542,587 | 569,472 | 3,742,413 | 957,651 |

Capital Improvement Project bonds

| <u>Purpose</u> | <u>Interest rates</u> | <u>Amount</u> |
|--------------------------|-----------------------|----------------------|
| Governmental activities | 2.00%-4.60% | \$ 22,418,261 |
| Business-type activities | 2.00%-4.60% | 9,931,739 |
| | | <u>\$ 32,350,000</u> |

Annual debt service requirements to maturity for Capital Improvement Project bonds:

| Year ending <u>June 30,</u> | Governmental Activities | | Business-type Activities | |
|--------------------------------|-------------------------|-----------------|--------------------------|-----------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> |
| 2007 | \$ 1,253,888 | \$ 832,305 | \$ 636,112 | \$ 371,136 |
| 2008 | 1,522,225 | 772,788 | 767,775 | 342,408 |
| 2009 | 1,122,225 | 725,885 | 762,775 | 317,301 |
| 2010 | 1,515,479 | 676,490 | 754,521 | 292,025 |
| 2011 | 1,516,013 | 626,270 | 748,987 | 266,591 |
| 2012-2016 | 7,286,489 | 2,346,038 | 3,598,511 | 922,879 |
| 2017-2021 | 4,423,282 | 1,165,158 | 2,026,718 | 318,748 |
| 2022-2026 | 3,132,445 | 384,028 | 557,555 | 83,604 |
| 2027-2031 | 246,215 | 5,403 | 78,785 | 1,910 |
| Totals | 22,418,261 | 7,534,365 | 9,931,739 | 2,916,602 |

Building Authority bonds

| <u>Purpose</u> | <u>Interest rates</u> | <u>Amount</u> |
|-------------------------|-----------------------|---------------|
| Governmental activities | 3.65%-5.60% | \$ 13,380,000 |

Annual debt service requirements to maturity for Building Authority bonds:

| Year ending | <u>Governmental Activities</u> | |
|-----------------|--------------------------------|-----------------|
| <u>June 30,</u> | <u>Principal</u> | <u>Interest</u> |
| 2007 | \$ 770,000 | \$ 644,513 |
| 2008 | 810,000 | 608,092 |
| 2009 | 860,000 | 568,563 |
| 2010 | 910,000 | 526,016 |
| 2011 | 915,000 | 481,434 |
| 2012-2016 | 5,145,000 | 1,662,844 |
| 2017-2021 | 3,300,000 | 540,665 |
| 2022-2026 | 670,000 | 30,437 |
| Totals | 13,380,000 | 5,062,564 |

Downtown Development Authority bonds

| <u>Purpose</u> | <u>Interest rates</u> | <u>Amount</u> |
|-------------------------|-----------------------|---------------|
| Governmental activities | 3.00%-5.25% | \$ 5,805,000 |

Annual debt service requirements to maturity for Downtown Development Authority bonds:

| Year ending | <u>Governmental Activities</u> | |
|-----------------|--------------------------------|-----------------|
| <u>June 30,</u> | <u>Principal</u> | <u>Interest</u> |
| 2007 | \$ 100,000 | \$ 266,727 |
| 2008 | 120,000 | 262,767 |
| 2009 | 125,000 | 258,286 |
| 2010 | 140,000 | 253,371 |
| 2011 | 160,000 | 247,639 |
| 2012-2016 | 1,205,000 | 1,108,474 |
| 2017-2021 | 2,250,000 | 725,574 |
| 2022-2026 | 1,455,000 | 239,394 |
| 2027-2031 | 250,000 | 13,125 |
| Totals | 5,805,000 | 3,375,357 |

Local Development Finance Authority bonds

| <u>Purpose</u> | <u>Interest rates</u> | <u>Amount</u> |
|-------------------------|-----------------------|---------------|
| Governmental activities | 6.10%-6.35% | \$ 6,270,000 |

Annual debt service requirements to maturity for Local Development Finance Authority bonds:

| Year ending | <u>Governmental Activities</u> | |
|-----------------|--------------------------------|-----------------|
| <u>June 30,</u> | <u>Principal</u> | <u>Interest</u> |
| 2007 | - | 345,132 |
| 2008 | 140,000 | 333,688 |
| 2009 | 140,000 | 326,998 |
| 2010 | 140,000 | 320,308 |
| 2011 | 140,000 | 313,618 |
| 2012-2016 | 1,065,000 | 1,444,953 |
| 2017-2021 | 1,600,000 | 1,130,263 |
| 2022-2026 | 2,020,000 | 643,200 |
| 2027-2031 | 1,025,000 | 138,250 |
| Totals | 6,270,000 | 4,996,410 |

Motor Vehicle Highway bonds

| <u>Purpose</u> | <u>Interest rates</u> | <u>Amount</u> |
|-------------------------|-----------------------|---------------|
| Governmental activities | 3.50%-5.80% | \$ 12,780,000 |

Annual debt service requirements to maturity for Motor Vehicle Highway bonds:

| Year ending | <u>Governmental Activities</u> | |
|-----------------|--------------------------------|-----------------|
| <u>June 30,</u> | <u>Principal</u> | <u>Interest</u> |
| 2007 | \$ 855,000 | \$ 605,965 |
| 2008 | 835,000 | 568,625 |
| 2009 | 865,000 | 530,503 |
| 2010 | 845,000 | 491,456 |
| 2011 | 885,000 | 451,169 |
| 2012-2016 | 4,470,000 | 1,586,146 |
| 2017-2021 | 3,800,000 | 461,022 |
| 2022-2026 | 225,000 | 5,400 |
| Totals | 12,780,000 | 4,700,286 |

Special Assessment debt with government commitment

| <u>Purpose</u> | <u>Interest rates</u> | <u>Amount</u> |
|---|-----------------------|---------------|
| Water main, sewer main, road improvements | 1.50%-7.20% | \$ 7,415,000 |

Annual debt service requirements to maturity for special assessment bonds:

| Year ending | <u>Governmental Activities</u> | |
|-----------------|--------------------------------|-----------------|
| <u>June 30,</u> | <u>Principal</u> | <u>Interest</u> |
| 2007 | \$ 920,000 | \$ 297,259 |
| 2008 | 890,000 | 261,133 |
| 2009 | 785,000 | 227,649 |
| 2010 | 765,000 | 196,074 |
| 2011 | 675,000 | 166,206 |
| 2012-2016 | 2,225,000 | 478,454 |
| 2017-2021 | 910,000 | 155,137 |
| 2022-2026 | 245,000 | 14,264 |
| Totals | 7,415,000 | 1,796,176 |

Revenue bonds

| <u>Purpose</u> | <u>Interest rates</u> | <u>Amount</u> |
|--|-----------------------|---------------|
| Water main and sewer main construction | 2.00%-7.00% | \$15,600,000 |

Annual debt service requirements to maturity for revenue bonds:

| Year ending | <u>Business-type Activities</u> | |
|-----------------|---------------------------------|-----------------|
| <u>June 30,</u> | <u>Principal</u> | <u>Interest</u> |
| 2007 | \$ 630,000 | \$ 629,878 |
| 2008 | 650,000 | 607,953 |
| 2009 | 670,000 | 584,770 |
| 2010 | 740,000 | 559,544 |
| 2011 | 810,000 | 531,000 |
| 2012-2016 | 3,410,000 | 2,245,394 |
| 2017-2021 | 4,375,000 | 1,470,056 |
| 2022-2026 | 4,315,000 | 414,800 |
| Totals | 15,600,000 | 7,043,395 |

Changes in long-term liabilities

Long-term liability activity for the year ended June 30, 2006 was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---------------------------------|----------------------|---------------------|-----------------------|----------------------|------------------------|
| Governmental activities | | | | | |
| Bonds payable: | | | | | |
| General obligation bonds | \$ 2,912,735 | \$ - | \$ (370,147) | \$ 2,542,588 | \$ 380,318 |
| Special Assessment debt | | | | | |
| With government | | | | | |
| Commitment | 8,054,000 | 280,000 | (919,000) | 7,415,000 | 920,000 |
| Building Authority bonds | 14,075,000 | - | (695,000) | 13,380,000 | 770,000 |
| Motor Vehicle Highway bonds | 13,530,000 | - | (750,000) | 12,780,000 | 855,000 |
| Downtown Development | | | | | |
| Authority bonds | 5,840,000 | - | (35,000) | 5,805,000 | 100,000 |
| Local Development Finance | | | | | |
| Authority bonds | 3,150,000 | 3,120,000 | - | 6,270,000 | - |
| CIP Bonds | 17,642,900 | 5,530,363 | (755,000) | 22,418,263 | 1,253,888 |
| Total bonds payable | 65,204,635 | 8,930,363 | (3,524,147) | 70,610,851 | 4,279,206 |
| Compensated absences | 1,736,447 | 1,000,225 | (897,578) | 1,839,094 | 897,578 |
| Retiree health care and pension | 1,111,050 | - | (4,193) | 1,106,857 | - |
| Governmental activity | | | | | |
| Long term liabilities | <u>\$ 68,052,132</u> | <u>\$ 9,930,588</u> | <u>\$ (4,425,918)</u> | <u>\$ 73,556,802</u> | <u>\$ 5,176,784</u> |
| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
| Business-type activities | | | | | |
| Bonds payable: | | | | | |
| General obligation bonds | \$ 4,202,265 | \$ - | \$ (459,850) | \$ 3,742,415 | \$ 464,682 |
| CIP Utility Refunding bonds | 8,732,100 | 1,769,637 | (570,000) | 9,931,737 | 636,112 |
| Utility revenue bonds | 16,155,000 | - | (555,000) | 15,600,000 | 630,000 |
| Total bonds payable | 29,089,365 | 1,769,637 | (1,584,850) | 29,274,152 | 1,730,794 |
| Compensated absences | 69,693 | 31,208 | (28,037) | 72,864 | 28,037 |
| Business-type activity | | | | | |
| Long term liabilities | <u>\$ 29,159,058</u> | <u>\$ 1,800,845</u> | <u>\$ (1,612,887)</u> | <u>\$ 29,347,016</u> | <u>\$ 1,758,831</u> |

The liabilities for compensated absences and net pension obligation have been liquidated out of current operations as claims arose, the cost of which is allocated among the different funds based on direct payroll allocation. The General Fund carries the largest payroll burden, and, therefore, satisfies the majority of the liability liquidation cost.

9. LITIGATION

As with any municipality, claims may from time to time be asserted which allege liability on the part of the City connected with a number of different matters involving general liability. The City is involved in a number of legal proceedings; while any litigation or investigation has an element of uncertainty, the City believes the uninsured portion of any lawsuit, or claim which is pending or threatened, or all of them combined, will not have a materially adverse effect on its financial condition or operations.

On May 6, 1998, the city reached a settlement agreement with the City of Kalamazoo for litigation begun in 1995. The litigation alleged overcharging by the City of Kalamazoo for wastewater rates over an extended period of time. The settlement agreement called for a credit of \$1,000,000 to the City of Portage that will be recognized over a 20-year period. The City of Kalamazoo has accounted for this credit as a contribution in aid of construction (of the wastewater system) on behalf of the City of Portage. The City of Portage recorded the credit as a reduction of expenses in the Sewer Fund for the appropriate amount annually over the life of the settlement period. The settlement agreement was adopted by the appropriate judicial agencies.

10. COMMITMENTS AND CONTINGENCIES

A. Capital Improvement Plan

The City has a ten year *Capital Improvement Program* (CIP capital budget) that is an anticipated spending plan for the projects in the upcoming and future years. The City's 2005/2006 Capital Budget included new appropriations of \$13,097,000, including \$2,565,000 for the City's enterprise funds and \$10,532,000 for general government projects. The City has substantial contractual commitments relating to its capital improvement program, as follows:

| <u>CIP project:</u> | <u>Spent to date</u> | <u>Remaining commitment</u> |
|--|----------------------|---------------------------------|
| Water system expansion (Enterprise fund) | \$ 1,126,944 | \$4,363,699 |
| Sewer main additions (Enterprise fund) | 306,331 | 1,158,861 |
| Street additions and improvements | 3,819,050 | 5,754,049 |
| Sidewalk and bikeway improvements | 513,924 | 844,657 |
| Public safety improvements - Police | 170,176 | 287,548 |
| Public safety improvements – Fire | 21,233 | 125,072 |
| Parks improvements | 182,116 | 0 |
| Public facility improvements | <u>428,209</u> | <u>0</u> |
| | \$6,576,983 | \$12,533,886 |

B. Risk-Related Contingencies

The City uses internal service funds to account for risks related to health benefits, third-party liability, and workers' compensation. The funds are as follows:

| <u>Fund Name</u> | <u>Description</u> |
|-----------------------|---|
| Liability Reserve | This reserve is held by Michigan Municipal Risk Management Association under the terms of their coverage for losses and claims related to liability for bodily injury, property damage, professional liability and certain employment liability. Excludes losses and claims related to health benefits or workers' compensation. After deductibles, experience rates dictate the reserve funding balance. |
| Workers' Compensation | Self-Insured. Costs are charged to other City funds each year based on historical cost. Stop-loss protection for individual incident claims paid in excess of \$350,000 is provided by Employers Reinsurance Corporation. |

The City purchases coverage for loss or damage to real property, theft and other criminal acts, and third-party liability associated with utility operations through participation in a municipal risk pool, MMRMA. The MMRMA stop loss program consists of an annually established dollar level of reserve out of which claims are paid. When payments exceed the reserve, MMRMA satisfies the claims. The level of stop loss reserve held by MMRMA as of June 30, 2006, was \$70,160. Lingering effects of the events of September 11, 2001, combined with the impact of natural disasters at home and abroad have caused insurance costs across the board to rise, and so increases have been necessary in deductibles and self-insured retention amounts. The amount of insurance settlement has not exceeded insurance coverage in this fiscal year, nor in the preceding three fiscal years.

Contingency liabilities are reported when it is probable that a loss has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

11. PENSION PLANS

The City continues to fund annuity contracts under a defined benefit pension plan covering certain employees of the City of Portage. These contracts cover certain full-time employees who were first hired prior to the years 1985 through 1989 (depending on their various employee groups), and who individually elected to remain participants in the defined benefit plan upon the City's adoption of defined contribution plans. (See Note 12.) The plan has 4 active participants. The plan is active only with regard to the 4 active participants, participants

who are no longer employed but who have not yet achieved the right to receive benefits under the plan, and the retirees currently receiving benefit under the plan. The annuity contracts are administered by the Principal Financial Group, and are held and invested separately from all other City funds. The plan is a single-employer plan.

Plan Description. The plan is a single-employer public employee defined benefit pension plan established and administered by the City of Portage. The plan covers certain department heads and non-union employees who opted not to join a defined contribution plan, plus radio operators. Participants include several terminated vested persons from other employee groups. The Plan provides retirement and death benefits to plan members and beneficiaries. The authority to establish and amend the benefit provisions rests with the City Council, under City Charter Section 6.17. The plan is considered part of the City of Portage's financial reporting entity, and is disclosed as a pension trust fiduciary fund in the City's financial reports. A financial statement may be obtained by writing to City of Portage, Finance Department, 7900 South Westnedge Avenue, Portage, Michigan 49002 or by calling (269) 329 - 4456.

Funding Policy. There are no required contributions by plan members. The plan has 4 active participants grandfathered in this defined benefit plan at the time that the City adopted the Defined Contribution plan. The contribution requirements of plan members and the employer were established by City Council and may be amended by City Council. Recommended contributions are actuarially determined. Administrative costs are funded through investment earnings.

Annual Pension Cost and Net Pension Obligation.

| | <u>June 30, 2006</u> |
|---|----------------------|
| Annual recommended contribution | \$ -0- |
| Interest on net pension obligation | -0- |
| Annual pension cost | -0- |
| Contribution made | -0- |
| Increase (decrease) in net pension obligation | -0- |
| Net pension obligation, beginning of year | -0- |
| Net pension obligation, end of year | -0- |

The annual required contribution was determined as part of the July 1, 2006, actuarial valuation using the entry age, normal cost method with normal cost calculated on an aggregate basis. The actuarial assumptions include (a) an 8% investment rate of return, and (b) projected salary increases of 4% per year, compounded annually, attributable to inflation. The aggregate actuarial cost method is used. This method does not identify or separately amortize unfunded actuarial liabilities (or funding excess). The effect of this actuarial technique is to smooth the effects of short-term volatility in the market value over a four-year period.

Summary of Significant Accounting Policies:

Basis of Accounting. The defined benefit plan is maintained as a pension trust fiduciary fund and is included as part of the City's reporting entity. The financial statements of the fund are prepared using the accrual basis of accounting. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Recommended contribution amounts to satisfy unfunded accrued pension liability are based on a 30-year amortization period. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Method Used to Value Investments. Plan investments are reported at fair value. Investment value is determined according to the contract lump sum transfer provision ignoring any contract restrictions on such transfer. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national, or international, exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest, and are discounted at the prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair value.

Trend Information

| <u>Fiscal Year Ending</u> | <u>Annual Pension Cost (APC)</u> | <u>Percentage of APC Contributed</u> | <u>Net Pension Obligation</u> |
|-------------------------------|--------------------------------------|--|-----------------------------------|
| 06/30/02 | \$ 56,281 | 100% | \$ 0 |
| 06/30/03 | \$ 75,228 | 100% | \$ 0 |
| 06/30/04 | \$ 0 | 100% | \$ 0 |
| 06/30/05 | \$ 0 | 100% | \$ 0 |
| 06/30/06 | \$ 0 | 100% | \$ 0 |

12. DEFINED CONTRIBUTION PLANS

The City has established a number of defined contribution plans that supersede the defined benefit plan. Employees at the time had the choice of transferring to the defined contribution plans. Each employee group has its own separate plan. The non-union and department head plans are administered by the City through trust agreements with the International City/County Management Association Retirement Corporation (ICMARC). The union plans are administered by the respective unions through trust agreements with PPS&V Asset Management Consultants, Inc. Selected employees in the Police Command and Street Foreman union groups are allowed to self-direct their investments. However, this does not change the responsibilities of the plan administrator. Financial statements for each plan can be obtained from the Finance Director, City of Portage, 7900 South Westnedge Avenue, Portage, Michigan 49002.

Plan Description. The plans cover all full-time employees, except those still enrolled in the defined benefit plan. Plan members are not required to contribute. Plan provision and contribution requirements are established and may be amended by the City Council, under City Charter Section 6.17. The City is required to contribute either specific dollar amounts or specific percentages of full-time salary costs, depending on the employee group. During the fiscal year ended June 30, 2006, the City contributed \$1,767,339 to the various plans, representing an aggregate of approximately 13.40 percent of covered payroll. No contributions were made to the plans by their participants.

13. DEFERRED COMPENSATION PLAN

The City provides an approved deferred compensation plan, under Section 457 of the Internal Revenue Code, which is administered by the ICMA Retirement Corporation. All City employees are eligible to participate. The Internal Revenue Code requires that the plan assets and income attributed to those assets be held in trust for the exclusive benefit of the participants and/or beneficiaries. All amounts of employees' compensation deferred under the plan are deposited with the plan trustee, ICMA Retirement Corporation, for management and investment. The plan trustee holds all assets of the plan, maintains accounting of each plan participant's accumulated assets and makes distributions to participants in accordance with the plan document.

14. EXPENDITURES IN EXCESS OF APPROPRIATIONS

No fund departments spent in excess of appropriations for the year ended June 30, 2006.

Defined Benefit Retirement Plan

Schedule of Funding Progress

The amount shown below as actuarial accrued liability is computed using the Projected Unit Credit method of funding. The three most recent years of funding progress are as follows:

| Actuarial Valuation Date July 1, | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) Entry Age (b) | Funded Ratio (a) / (b) | Excess of Assets Over AAL (d) (a) – (b) | Annual Covered Payroll (e) | Excess as a Percentage of Covered Payroll (d) / (e) |
|---|-------------------------------------|--|------------------------------|--|----------------------------------|--|
| 2003 | 3,925,409 | 2,718,838 | 144.38% | 1,206,571 | 174,809 | 690.22% |
| 2004 | 3,649,167 | 2,703,628 | 134.97% | 945,539 | 172,062 | 549.53% |
| 2005 | 3,766,632 | 2,679,407 | 140.58% | 1,087,225 | 175,443 | 619.70% |

Analysis of dollar amounts of plan net assets, actuarial accrued liability, and unfunded actuarial accrued liability in isolation can be misleading. Expressing plan net assets as a percentage of the actuarial accrued liability provides one indication of a plan's funding status on a going concern basis. Analysis of this percentage over time indicates whether the plan is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan. Trends in the unfunded actuarial accrued liability and annual covered payroll are both affected by inflation.

Expressing the unfunded actuarial accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due.

CITY OF PORTAGE, MICHIGAN

Combining Balance Sheet Nonmajor Governmental Funds

June 30, 2006

| | Special Revenue Funds | Debt Service Funds | Cemetery Permanent Fund | C.D.B.G. Program Income Fund | Total |
|--|-----------------------------|--------------------------|-------------------------------|---------------------------------------|---------------------|
| ASSETS | | | | | |
| Cash and investments | \$ 537,490 | \$ 1,914,440 | \$ 724,240 | \$ 7,463 | \$ 3,183,633 |
| Accounts receivable | 170,785 | 80,226 | - | 1,116,513 | 1,367,524 |
| Due from other governments | 62,692 | - | - | - | 62,692 |
| Prepaid costs | 7,999 | 130,678 | - | - | 138,677 |
| Total assets | <u>778,966</u> | <u>2,125,344</u> | <u>724,240</u> | <u>1,123,976</u> | <u>4,752,526</u> |
| LIABILITIES | | | | | |
| Accounts payable | 36,761 | - | - | 803 | 37,564 |
| Checks issued against future deposits | 56,767 | 99,691 | - | - | 156,458 |
| Accrued compensation | 12,841 | - | - | - | 12,841 |
| Interest payable | - | 30,973 | - | - | 30,973 |
| Deferred revenue | 27,492 | - | - | 1,116,514 | 1,144,006 |
| Deposits payable | 25,000 | - | - | - | 25,000 |
| Total liabilities | <u>158,861</u> | <u>130,664</u> | <u>-</u> | <u>1,117,317</u> | <u>1,406,842</u> |
| FUND BALANCES | | | | | |
| Reserved for encumbrances | 63,804 | - | - | - | 63,804 |
| Reserved for prepaid costs | 7,999 | - | - | - | 7,999 |
| Reserved for uncompleted projects | 147,135 | - | - | - | 147,135 |
| Reserved for debt service | - | 1,994,680 | - | - | 1,994,680 |
| Reserved for perpetual care | - | - | 724,240 | - | 724,240 |
| Reserved for loans | - | - | - | 6,659 | 6,659 |
| Unreserved and undesignated | 401,167 | - | - | - | 401,167 |
| Total fund balances | <u>620,105</u> | <u>1,994,680</u> | <u>724,240</u> | <u>6,659</u> | <u>3,345,684</u> |
| Total liabilities and fund balances | <u>\$ 778,966</u> | <u>\$ 2,125,344</u> | <u>\$ 724,240</u> | <u>\$ 1,123,976</u> | <u>\$ 4,752,526</u> |

CITY OF PORTAGE, MICHIGAN

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds

Fiscal Year Ended June 30, 2006

| | Special Revenue Funds | Debt Service Funds | Cemetery Permanent Fund | C.D.B.G. Program Income Fund | Total |
|--|-----------------------------|--------------------------|-------------------------------|---------------------------------------|---------------------|
| REVENUES | | | | | |
| Taxes and special assessments | \$ 1,270,687 | \$ 436,129 | \$ - | \$ - | \$ 1,706,816 |
| Licenses and permits | 533,320 | - | - | - | 533,320 |
| Intergovernmental | 231,115 | - | - | - | 231,115 |
| Charges for services | 37,773 | - | 33,625 | - | 71,398 |
| Fines and forfeits | - | - | - | - | - |
| Interest and rents | 34,408 | 260,788 | 26,104 | - | 321,300 |
| Other | 108,326 | - | - | 118,873 | 227,199 |
| Total revenues | <u>2,215,629</u> | <u>696,917</u> | <u>59,729</u> | <u>118,873</u> | <u>3,091,148</u> |
| EXPENDITURES | | | | | |
| Current: | | | | | |
| General government | 54,924 | - | - | - | 54,924 |
| Public safety | 64,212 | - | - | - | 64,212 |
| Health and welfare | 1,296,611 | - | - | 118,874 | 1,415,485 |
| Recreation and cultural | 505,263 | - | - | - | 505,263 |
| Refund of tax revenues | - | 10,282 | - | - | 10,282 |
| Economic development | - | 1,951,954 | - | - | 1,951,954 |
| Debt service: | | | | | |
| Principal | - | 2,303,969 | - | - | 2,303,969 |
| Interest and fiscal charges | - | 2,467,415 | - | - | 2,467,415 |
| Total expenditures | <u>1,921,010</u> | <u>6,733,620</u> | <u>-</u> | <u>118,874</u> | <u>8,773,504</u> |
| Excess (deficiency) of revenues over expenditures | <u>294,619</u> | <u>(6,036,703)</u> | <u>59,729</u> | <u>(1)</u> | <u>(5,682,356)</u> |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Issuance of debt obligations | - | 3,120,000 | - | - | 3,120,000 |
| Transfers in | - | 3,975,698 | - | - | 3,975,698 |
| Transfers out | <u>(321,504)</u> | <u>-</u> | <u>(9,000)</u> | <u>-</u> | <u>(330,504)</u> |
| Total other financing sources (uses) | <u>(321,504)</u> | <u>7,095,698</u> | <u>(9,000)</u> | <u>-</u> | <u>6,765,194</u> |
| Net change in fund balances | (26,885) | 1,058,995 | 50,729 | (1) | 1,082,838 |
| Fund balances - beginning | <u>646,990</u> | <u>935,685</u> | <u>673,511</u> | <u>6,660</u> | <u>2,262,846</u> |
| Fund balances - ending | <u>\$ 620,105</u> | <u>\$ 1,994,680</u> | <u>\$ 724,240</u> | <u>\$ 6,659</u> | <u>\$ 3,345,684</u> |

CITY OF PORTAGE, MICHIGAN

Combining Balance Sheet Nonmajor Special Revenue Funds

June 30, 2006

| | Cultural Activities Fund | Cable Television Fund | Community Development Block Grant Fund | West Lake Management Program | Curbside Recycling Fund | Leaf Pickup Spring Clean Fund | Total |
|--|--------------------------------|-----------------------------|---|------------------------------------|-------------------------------|-------------------------------------|-------------------|
| ASSETS | | | | | | | |
| Cash and investments | \$ 9,650 | \$ 155,849 | \$ - | \$ 146,527 | \$ 197,661 | \$ 27,803 | \$ 537,490 |
| Accounts receivable | 10,755 | 137,666 | - | 22,364 | - | - | 170,785 |
| Due from other governments | - | - | 61,956 | 736 | - | - | 62,692 |
| Prepaid costs | 3,786 | - | - | - | 1,908 | 2,305 | 7,999 |
| Total assets | <u>24,191</u> | <u>293,515</u> | <u>61,956</u> | <u>169,627</u> | <u>199,569</u> | <u>30,108</u> | <u>778,966</u> |
| LIABILITIES | | | | | | | |
| Accounts payable | - | - | - | - | 36,761 | - | 36,761 |
| Checks issued against future deposits | - | - | 56,767 | - | - | - | 56,767 |
| Accrued compensation | 4,193 | 2,685 | 5,189 | - | 120 | 654 | 12,841 |
| Deferred revenue | 5,000 | - | - | 22,492 | - | - | 27,492 |
| Deposits payable | - | 25,000 | - | - | - | - | 25,000 |
| Total liabilities | <u>9,193</u> | <u>27,685</u> | <u>61,956</u> | <u>22,492</u> | <u>36,881</u> | <u>654</u> | <u>158,861</u> |
| FUND BALANCES | | | | | | | |
| Reserved: | | | | | | | |
| Reserved for encumbrances | 240 | 36,847 | - | - | 23,493 | 3,224 | 63,804 |
| Reserved for prepaid costs | 3,786 | - | - | - | 1,908 | 2,305 | 7,999 |
| Reserved for lakes maintenance | - | - | - | 147,135 | - | - | 147,135 |
| Unreserved: | | | | | | | |
| Undesignated | 10,972 | 228,983 | - | - | 137,287 | 23,925 | 401,167 |
| Total fund balances | <u>14,998</u> | <u>265,830</u> | <u>-</u> | <u>147,135</u> | <u>162,688</u> | <u>29,454</u> | <u>620,105</u> |
| Total liabilities and fund balances | <u>\$ 24,191</u> | <u>\$ 293,515</u> | <u>\$ 61,956</u> | <u>\$ 169,627</u> | <u>\$ 199,569</u> | <u>\$ 30,108</u> | <u>\$ 778,966</u> |

CITY OF PORTAGE, MICHIGAN

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances Nonmajor Special Revenue Funds

Fiscal Year Ended June 30, 2006

| | Cultural Activities Fund | Cable Television Fund | Community Development Block Grant Fund | West Lake Management Fund | Curbside Recycling Fund | Leaf Pickup Spring Clean Fund | Total |
|--|--------------------------------|-----------------------------|---|---------------------------------|-------------------------------|-------------------------------------|-------------------|
| REVENUES: | | | | | | | |
| Taxes and special assessments | \$ - | \$ - | \$ - | \$ 28,386 | \$ 540,052 | \$ 702,249 | \$ 1,270,687 |
| Licenses and permits | - | 533,320 | - | - | - | - | 533,320 |
| Intergovernmental | - | - | 231,115 | - | - | - | 231,115 |
| Charges for services | 37,773 | - | - | - | - | - | 37,773 |
| Interest on investments | 53 | 2,397 | - | 5,364 | 13,645 | 12,949 | 34,408 |
| Other | 99,857 | - | - | - | - | 8,469 | 108,326 |
| Total revenues | <u>137,683</u> | <u>535,717</u> | <u>231,115</u> | <u>33,750</u> | <u>553,697</u> | <u>723,667</u> | <u>2,215,629</u> |
| EXPENDITURES: | | | | | | | |
| General government | - | - | 54,924 | - | - | - | 54,924 |
| Public safety | - | - | 64,212 | - | - | - | 64,212 |
| Health and welfare | - | - | 111,979 | - | 583,829 | 600,803 | 1,296,611 |
| Recreation and cultural | 127,497 | 375,966 | - | 1,800 | - | - | 505,263 |
| Total expenditures | <u>127,497</u> | <u>375,966</u> | <u>231,115</u> | <u>1,800</u> | <u>583,829</u> | <u>600,803</u> | <u>1,921,010</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>10,186</u> | <u>159,751</u> | <u>-</u> | <u>31,950</u> | <u>(30,132)</u> | <u>122,864</u> | <u>294,619</u> |
| OTHER FINANCING SOURCES (USES): | | | | | | | |
| Transfers out | - | (115,000) | - | - | - | (206,504) | (321,504) |
| Total other financing sources and (uses) | <u>-</u> | <u>(115,000)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(206,504)</u> | <u>(321,504)</u> |
| Net change in fund balances | 10,186 | 44,751 | - | 31,950 | (30,132) | (83,640) | (26,885) |
| Fund balances - beginning | <u>4,812</u> | <u>221,079</u> | <u>-</u> | <u>115,185</u> | <u>192,820</u> | <u>113,094</u> | <u>646,990</u> |
| Fund balances - ending | <u>\$ 14,998</u> | <u>\$ 265,830</u> | <u>\$ -</u> | <u>\$ 147,135</u> | <u>\$ 162,688</u> | <u>\$ 29,454</u> | <u>\$ 620,105</u> |

CITY OF PORTAGE, MICHIGAN

Cultural Activities Fund Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual

**Fiscal Year Ended June 30, 2006
With Comparative Actual Amounts for Fiscal Year Ended June 30, 2005**

| | 2006 | | | |
|--|-------------------|------------------|--|-----------------|
| | Amended Budget | Actual | Variance with Amended Budget + / (-) | 2005 Actual |
| REVENUES | | | | |
| Charges for services | \$ 46,930 | \$ 37,773 | \$ (9,157) | \$ 39,303 |
| Interest on investments | 600 | 53 | (547) | - |
| Other | 95,000 | 99,857 | 4,857 | 107,919 |
| Total revenues | <u>142,530</u> | <u>137,683</u> | <u>(4,847)</u> | <u>147,222</u> |
| EXPENDITURES | | | | |
| Cultural Activities | <u>142,494</u> | <u>127,497</u> | <u>14,997</u> | <u>143,654</u> |
| Total expenditures | <u>142,494</u> | <u>127,497</u> | <u>14,997</u> | <u>143,654</u> |
| Excess (deficiency) of revenues over expenditures | 36 | 10,186 | 10,150 | 3,568 |
| Fund balance - beginning | <u>4,812</u> | <u>4,812</u> | <u>-</u> | <u>1,244</u> |
| Fund balance - ending | <u>\$ 4,848</u> | <u>\$ 14,998</u> | <u>\$ 10,150</u> | <u>\$ 4,812</u> |

CITY OF PORTAGE, MICHIGAN

Cable Television Fund Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual

**Fiscal Year Ended June 30, 2006
With Comparative Actual Amounts for Fiscal Year Ended June 30, 2005**

| | 2006 | | |
|--|-------------------|-------------------|--|
| | Amended Budget | Actual | Variance with Amended Budget + / (-) |
| | | | 2005 Actual |
| REVENUE: | | | |
| Licenses and permits: | | | |
| Annual fees | \$ 526,000 | \$ 533,320 | \$ 7,320 |
| Interest on investments | 1,500 | 2,397 | 897 |
| Total revenues | <u>527,500</u> | <u>535,717</u> | <u>8,217</u> |
| EXPENDITURES: | | | |
| Recreation and cultural: | | | |
| Operations | <u>503,684</u> | <u>375,966</u> | <u>127,718</u> |
| Total expenditures | <u>503,684</u> | <u>375,966</u> | <u>127,718</u> |
| Excess (deficiency) of revenues over expenditures | 23,816 | 159,751 | 135,935 |
| OTHER FINANCING USES: | | | |
| Transfers: | | | |
| General Fund | <u>(115,000)</u> | <u>(115,000)</u> | <u>-</u> |
| Total other financing sources (uses) | <u>(115,000)</u> | <u>(115,000)</u> | <u>-</u> |
| Net change in fund balance | (91,184) | 44,751 | 135,935 |
| Fund balance - beginning | <u>221,079</u> | <u>221,079</u> | <u>-</u> |
| Fund balance - ending | <u>\$ 129,895</u> | <u>\$ 265,830</u> | <u>\$ 135,935</u> |

CITY OF PORTAGE, MICHIGAN

Community Development Block Grant Fund Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual

**Fiscal Year Ended June 30, 2006
With Comparative Actual Amounts for Fiscal Year Ended June 30, 2005**

| | 2006 | | | |
|--|-------------------|----------------|--|----------------|
| | Amended Budget | Actual | Variance with Amended Budget + / (-) | 2005 Actual |
| REVENUE: | | | | |
| Intergovernmental: | | | | |
| Federal grants | \$ 248,069 | \$ 231,115 | \$ (16,954) | \$ 423,641 |
| Total revenues | <u>248,069</u> | <u>231,115</u> | <u>(16,954)</u> | <u>423,641</u> |
| EXPENDITURES: | | | | |
| General government: | | | | |
| Administration | 58,264 | 54,924 | 3,340 | 55,167 |
| Public safety: | | | | |
| Code enforcement | 68,410 | 64,212 | 4,198 | 65,987 |
| Health and welfare: | | | | |
| Housing rehabilitation | 84,885 | 74,769 | 10,116 | 265,487 |
| Portage Community Outreach Center | <u>37,210</u> | <u>37,210</u> | <u>-</u> | <u>37,000</u> |
| Total expenditures | <u>248,769</u> | <u>231,115</u> | <u>17,654</u> | <u>423,641</u> |
| Excess (deficiency) of revenues over expenditures | (700) | - | (700) | - |
| Fund balance - beginning | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Fund balance - ending | <u>\$ (700)</u> | <u>\$ -</u> | <u>\$ (700)</u> | <u>\$ -</u> |

CITY OF PORTAGE, MICHIGAN

West Lake Management Fund Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual

Fiscal Year Ended June 30, 2006
With Comparative Actual Amounts for Fiscal Year Ended June 30, 2005

| | 2006 | | | |
|--|-------------------|-------------------|--|-------------------|
| | Amended Budget | Actual | Variance with Amended Budget + / (-) | 2005 Actual |
| REVENUE: | | | | |
| Taxes and special assessments | \$ 6,076 | \$ 28,386 | \$ 22,310 | \$ 51 |
| Interest on investments | 1,500 | 5,364 | 3,864 | 2,954 |
| Total revenues | <u>7,576</u> | <u>33,750</u> | <u>26,174</u> | <u>3,005</u> |
| EXPENDITURES: | | | | |
| Recreation and Cultural: | | | | |
| Weed control | 42,850 | 1,800 | 41,050 | 26,164 |
| Total expenditures | <u>42,850</u> | <u>1,800</u> | <u>41,050</u> | <u>26,164</u> |
| Excess (deficiency) of revenues over expenditures | <u>(35,274)</u> | <u>31,950</u> | <u>67,224</u> | <u>(23,159)</u> |
| Net change in fund balance | (35,274) | 31,950 | 67,224 | (23,159) |
| Fund balance - beginning | <u>115,185</u> | <u>115,185</u> | <u>-</u> | <u>138,344</u> |
| Fund balance - ending | <u>\$ 79,911</u> | <u>\$ 147,135</u> | <u>\$ 67,224</u> | <u>\$ 115,185</u> |

CITY OF PORTAGE, MICHIGAN

Curbside Recycling Fund Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual

Fiscal Year Ended June 30, 2006
With Comparative Actual Amounts for Fiscal Year Ended June 30, 2005

| | 2006 | | |
|--|-------------------|-------------------|--|
| | Amended Budget | Actual | Variance with Amended Budget + / (-) |
| | | | 2005 Actual |
| REVENUE: | | | |
| Taxes and special assessments | \$ 567,400 | \$ 540,052 | \$ (27,348) |
| Interest on investments | 4,000 | 13,645 | 9,645 |
| Total revenues | <u>571,400</u> | <u>553,697</u> | <u>(17,703)</u> |
| EXPENDITURES: | | | |
| Health and welfare: | | | |
| Operations | <u>713,370</u> | <u>583,829</u> | <u>129,541</u> |
| Total expenditures | <u>713,370</u> | <u>583,829</u> | <u>129,541</u> |
| Excess (deficiency) of revenues over expenditures | (141,970) | (30,132) | 111,838 |
| Net change in fund balance | (141,970) | (30,132) | 111,838 |
| Fund balance - beginning | <u>192,820</u> | <u>192,820</u> | <u>-</u> |
| Fund balance - ending | <u>\$ 50,850</u> | <u>\$ 162,688</u> | <u>\$ 111,838</u> |

CITY OF PORTAGE, MICHIGAN

Leaf Pickup / Spring Cleanup Fund Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual

Fiscal Year Ended June 30, 2006
With Comparative Actual Amounts for Fiscal Year Ended June 30, 2005

| | 2006 | | |
|--|-------------------|------------------|--|
| | Amended Budget | Actual | Variance with Amended Budget + / (-) |
| | | | 2005 Actual |
| REVENUE: | | | |
| Taxes and special assessments | \$ 739,400 | \$ 702,249 | \$ (37,151) |
| Interest on investments | 4,000 | 12,949 | 8,949 |
| Other revenue | 15,000 | 8,469 | (6,531) |
| Total revenues | <u>758,400</u> | <u>723,667</u> | <u>(34,733)</u> |
| EXPENDITURES: | | | |
| Health and welfare: | | | |
| Operations | 624,307 | 600,803 | 23,504 |
| Total expenditures | <u>624,307</u> | <u>600,803</u> | <u>23,504</u> |
| Excess (deficiency) of revenues over expenditures | <u>134,093</u> | <u>122,864</u> | <u>(11,229)</u> |
| OTHER FINANCING SOURCES (USES): | | | |
| Transfer in (out): | | | |
| General Fund | (187,306) | (187,306) | - |
| Debt Service Fund | (19,198) | (19,198) | - |
| Total other financing sources (uses) | <u>(206,504)</u> | <u>(206,504)</u> | <u>-</u> |
| Net change in fund balance | (72,411) | (83,640) | (11,229) |
| Fund balance - beginning | <u>113,094</u> | <u>113,094</u> | <u>-</u> |
| Fund balance - ending | <u>\$ 40,683</u> | <u>\$ 29,454</u> | <u>\$ (11,229)</u> |

CITY OF PORTAGE, MICHIGAN

Combining Balance Sheet Nonmajor Debt Service Funds

June 30, 2006

| | General Obligation Debt Fund | Motor Vehicle Highway Fund | Downtown Development Authority Fund | Building Authority Debt Service Fund | Local Development Finance Authority 2 Debt Service Fund | Total |
|--|---------------------------------------|-------------------------------------|--|---|--|---------------------|
| ASSETS | | | | | | |
| Cash and investments | \$ - | \$ 5,942 | \$ 258,319 | \$ 10,430 | \$ 1,639,749 | \$ 1,914,440 |
| Accounts receivable | - | - | - | - | 80,226 | 80,226 |
| Prepaid asset acquisition costs | 130,678 | - | - | - | - | 130,678 |
| Total assets | <u>130,678</u> | <u>5,942</u> | <u>258,319</u> | <u>10,430</u> | <u>1,719,975</u> | <u>2,125,344</u> |
| LIABILITIES | | | | | | |
| Checks issued against future deposits | 99,691 | - | - | - | - | 99,691 |
| Interest payable | 22,962 | - | - | - | 8,011 | 30,973 |
| Total liabilities | <u>122,653</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>8,011</u> | <u>130,664</u> |
| FUND BALANCES | | | | | | |
| Reserved for debt service | 8,025 | 5,942 | 258,319 | 10,430 | 1,711,964 | 1,994,680 |
| Total fund balances | <u>8,025</u> | <u>5,942</u> | <u>258,319</u> | <u>10,430</u> | <u>1,711,964</u> | <u>1,994,680</u> |
| Total liabilities and fund balances | <u>\$ 130,678</u> | <u>\$ 5,942</u> | <u>\$ 258,319</u> | <u>\$ 10,430</u> | <u>\$ 1,719,975</u> | <u>\$ 2,125,344</u> |

CITY OF PORTAGE, MICHIGAN

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances Nonmajor Debt Service Funds

Fiscal Year Ended June 30, 2006

| | General Obligation Debt Fund | Motor Vehicle Highway Fund | Downtown Development Authority Fund | Building Authority Debt Service Fund | Local Development Finance Authority 2004 Debt Service Fund | Total |
|--|---------------------------------------|-------------------------------------|--|---|---|--------------|
| REVENUES: | | | | | | |
| Taxes and special assessments | \$ - | \$ - | \$ 279,457 | \$ - | \$ 156,672 | \$ 436,129 |
| Interest on investments | - | 117 | 10,653 | - | 21,195 | 31,965 |
| Rental revenue | - | - | - | 228,823 | - | 228,823 |
| Total revenues | - | 117 | 290,110 | 228,823 | 177,867 | 696,917 |
| EXPENDITURES: | | | | | | |
| Debt Service: | | | | | | |
| Principal retirement | 996,607 | 750,000 | 35,000 | 522,362 | - | 2,303,969 |
| Interest and fiscal charges | 732,998 | 641,653 | 269,438 | 626,226 | 197,100 | 2,467,415 |
| Refund of tax revenues | 10,282 | - | - | - | - | 10,282 |
| Economic development | - | - | - | - | 1,951,954 | 1,951,954 |
| Total expenditures | 1,739,887 | 1,391,653 | 304,438 | 1,148,588 | 2,149,054 | 6,733,620 |
| Excess (deficiency) of revenues over expenditures | (1,739,887) | (1,391,536) | (14,328) | (919,765) | (1,971,187) | (6,036,703) |
| OTHER FINANCING SOURCES (USES): | | | | | | |
| Issuance of debt obligations | - | - | - | - | 3,120,000 | 3,120,000 |
| Transfers in: | | | | | | |
| Capital Improvement Fund | 1,645,000 | 1,389,500 | - | 922,000 | - | 3,956,500 |
| Special Assessment Fund | 19,198 | - | - | - | - | 19,198 |
| Total other financing sources (uses) | 1,664,198 | 1,389,500 | - | 922,000 | 3,120,000 | 7,095,698 |
| Net change in fund balance | (75,689) | (2,036) | (14,328) | 2,235 | 1,148,813 | 1,058,995 |
| Fund balances - beginning | 83,714 | 7,978 | 272,647 | 8,195 | 563,151 | 935,685 |
| Fund balances - ending | \$ 8,025 | \$ 5,942 | \$ 258,319 | \$ 10,430 | \$ 1,711,964 | \$ 1,994,680 |

CITY OF PORTAGE, MICHIGAN

General Obligation Debt Service Fund Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual

Fiscal Year Ended June 30, 2006
With Comparative Actual Amounts for Fiscal Year Ended June 30, 2005

| | 2006 | | | 2005 |
|--|--------------------|--------------------|--|--------------------|
| | Amended Budget | Actual | Variance with Amended Budget + / (-) | Actual |
| REVENUES | | | | |
| Taxes | \$ - | \$ - | \$ - | \$ 819 |
| Interest on investments | 2,000 | - | (2,000) | 69 |
| Total revenues | <u>2,000</u> | <u>-</u> | <u>(2,000)</u> | <u>888</u> |
| EXPENDITURES | | | | |
| Debt Service: | | | | |
| Principal retirement | 1,054,385 | 996,607 | 57,778 | 993,947 |
| Interest and fiscal charges | 727,243 | 732,998 | (5,755) | 491,648 |
| Refund of tax revenues | - | 10,282 | (10,282) | - |
| Total expenditures | <u>1,781,628</u> | <u>1,739,887</u> | <u>41,741</u> | <u>1,485,595</u> |
| Excess (deficiency) of revenues over expenditures | <u>(1,779,628)</u> | <u>(1,739,887)</u> | <u>39,741</u> | <u>(1,484,707)</u> |
| OTHER FINANCING SOURCES: | | | | |
| Transfers in: | | | | |
| Leaf Pickup/Spring Cleanup Fund | 19,453 | 19,198 | (255) | 19,453 |
| Capital Improvement Funds | 1,753,000 | 1,645,000 | (108,000) | 1,545,000 |
| Total other financing sources (uses) | <u>1,772,453</u> | <u>1,664,198</u> | <u>(108,255)</u> | <u>1,564,453</u> |
| Net change in fund balance | (7,175) | (75,689) | (68,514) | 79,746 |
| Fund balance - beginning | <u>83,714</u> | <u>83,714</u> | <u>-</u> | <u>3,968</u> |
| Fund balance - ending | <u>\$ 76,539</u> | <u>\$ 8,025</u> | <u>\$ (68,514)</u> | <u>\$ 83,714</u> |

CITY OF PORTAGE, MICHIGAN

Motor Vehicle Highway Fund Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual

Fiscal Year Ended June 30, 2006
With Comparative Actual Amounts for Fiscal Year Ended June 30, 2005

| | 2006 | | |
|--|-------------------|-------------|--|
| | Amended Budget | Actual | Variance with Amended Budget + / (-) |
| | | | 2005 Actual |
| REVENUES | | | |
| Interest on investments | \$ - | \$ 117 | \$ 117 |
| Total revenues | - | 117 | 140 |
| EXPENDITURES | | | |
| Debt Service: | | | |
| Principal retirement | 750,000 | 750,000 | - |
| Interest and fiscal charges | 642,100 | 641,653 | 447 |
| Total expenditures | 1,392,100 | 1,391,653 | 447 |
| Excess (deficiency) of revenues over expenditures | (1,392,100) | (1,391,536) | 564 |
| OTHER FINANCING SOURCES (USES): | | | |
| Transfers in: | | | |
| Capital Improvement Fund | 1,404,000 | 1,389,500 | (14,500) |
| Transfers out: | | | |
| Capital Improvement Fund | - | - | (4,636) |
| Total other financing sources (uses) | 1,404,000 | 1,389,500 | (14,500) |
| Net change in fund balance | 11,900 | (2,036) | (13,936) |
| Fund balance - beginning | 7,978 | 7,978 | - |
| Fund balance - ending | \$ 19,878 | \$ 5,942 | \$ (13,936) |

CITY OF PORTAGE, MICHIGAN

Downtown Development Authority Debt Service Fund Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual

**Fiscal Year Ended June 30, 2006
With Comparative Actual Amounts for Fiscal Year Ended June 30, 2005**

| | 2006 | | |
|---|-------------------|-------------------|--|
| | Amended Budget | Actual | Variance with Amended Budget + / (-) |
| | | | 2005 Actual |
| REVENUE: | | | |
| Taxes | \$ 277,000 | \$ 279,457 | \$ 2,457 |
| Interest on investments | 500 | 10,653 | 10,153 |
| Total revenues | <u>277,500</u> | <u>290,110</u> | <u>12,610</u> |
| EXPENDITURES: | | | |
| Debt Service: | | | |
| Principal | 35,000 | 35,000 | - |
| Interest | 269,260 | 269,438 | (178) |
| Total expenditures | <u>304,260</u> | <u>304,438</u> | <u>(178)</u> |
| Excess of revenues over expenditures | (26,760) | (14,328) | 12,432 |
| OTHER FINANCING SOURCES | | | |
| Transfers in: | | | |
| Capital Improvement Fund | - | - | - |
| Total other financing sources (uses) | <u>-</u> | <u>-</u> | <u>-</u> |
| Net change in fund balance | (26,760) | (14,328) | 12,432 |
| Fund balance - beginning | <u>272,647</u> | <u>272,647</u> | <u>-</u> |
| Fund balance - ending | <u>\$ 245,887</u> | <u>\$ 258,319</u> | <u>\$ 12,432</u> |

CITY OF PORTAGE, MICHIGAN

Building Authority Debt Service Fund Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual

**Fiscal Year Ended June 30, 2006
With Comparative Actual Amounts for Fiscal Year Ended June 30, 2005**

| | 2006 | | | |
|---|-------------------|------------------|--|------------------|
| | Amended Budget | Actual | Variance with Amended Budget + / (-) | 2005 Actual |
| REVENUES | | | | |
| Interest on investments | \$ 5,000 | \$ - | \$ (5,000) | \$ - |
| Rental revenue | 232,089 | 228,823 | (3,266) | 235,353 |
| Total revenues | <u>237,089</u> | <u>228,823</u> | <u>(8,266)</u> | <u>235,353</u> |
| EXPENDITURES | | | | |
| Debt Service: | | | | |
| Principal | 522,393 | 522,362 | 31 | 497,381 |
| Interest | 627,197 | 626,226 | 971 | 651,562 |
| Total expenditures | <u>1,149,590</u> | <u>1,148,588</u> | <u>1,002</u> | <u>1,148,943</u> |
| Excess of revenues over expenditures | <u>(912,501)</u> | <u>(919,765)</u> | <u>(7,264)</u> | <u>(913,590)</u> |
| OTHER FINANCING SOURCES | | | | |
| Transfers in: | | | | |
| Capital Improvement Fund | 922,000 | 922,000 | - | 850,000 |
| Total other financing sources (uses) | <u>922,000</u> | <u>922,000</u> | <u>-</u> | <u>850,000</u> |
| Net change in fund balance | 9,499 | 2,235 | (7,264) | (63,590) |
| Fund balance - beginning | <u>8,195</u> | <u>8,195</u> | <u>-</u> | <u>71,785</u> |
| Fund balance - ending | <u>\$ 17,694</u> | <u>\$ 10,430</u> | <u>\$ (7,264)</u> | <u>\$ 8,195</u> |

CITY OF PORTAGE, MICHIGAN

Local Development Finance Authority 2004 Debt Service Fund Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual

Fiscal Year Ended June 30, 2006
With Comparative Actual Amounts for Fiscal Year Ended June 30, 2005

| | 2006 | | | |
|--|-------------------|---------------------|--|--------------------|
| | Amended Budget | Actual | Variance with Amended Budget + / (-) | 2005 Actual |
| REVENUES | | | | |
| Taxes and special assessments | \$ 160,800 | \$ 156,672 | \$ (4,128) | \$ 51,484 |
| Interest on investments | 1,000 | 21,195 | 20,195 | 13,639 |
| Total revenues | <u>161,800</u> | <u>177,867</u> | <u>16,067</u> | <u>65,123</u> |
| EXPENDITURES | | | | |
| Debt Service: | | | | |
| Principal | - | - | - | - |
| Interest | 196,850 | 197,100 | (250) | 130,900 |
| Economic development | <u>52,419</u> | <u>1,951,954</u> | <u>(1,899,535)</u> | <u>2,535,253</u> |
| Total expenditures | <u>249,269</u> | <u>2,149,054</u> | <u>(1,899,785)</u> | <u>2,666,153</u> |
| Excess (deficiency) of revenues over expenditures | <u>(87,469)</u> | <u>(1,971,187)</u> | <u>(1,883,718)</u> | <u>(2,601,030)</u> |
| OTHER FINANCING SOURCES | | | | |
| Issuance of debt obligations | - | 3,120,000 | 3,120,000 | - |
| Total other financing sources (uses) | <u>-</u> | <u>3,120,000</u> | <u>3,120,000</u> | <u>-</u> |
| Net change in fund balance | (87,469) | 1,148,813 | 1,236,282 | (2,601,030) |
| Fund balance - beginning | <u>563,151</u> | <u>563,151</u> | <u>-</u> | <u>3,164,181</u> |
| Fund balance - ending | <u>\$ 475,682</u> | <u>\$ 1,711,964</u> | <u>\$ 1,236,282</u> | <u>\$ 563,151</u> |

CITY OF PORTAGE, MICHIGAN

Cemetery Permanent Fund Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual

Fiscal Year Ended June 30, 2006
With Comparative Actual Amounts for Fiscal Year Ended June 30, 2005

| | 2006 | | |
|--------------------------------------|-------------------|-------------------|--|
| | Amended Budget | Actual | Variance with Amended Budget + / (-) |
| | | | 2005 Actual |
| REVENUES | | | |
| Charges for services | \$ 54,000 | \$ 33,625 | \$ (20,375) |
| Interest on investments | 9,000 | 26,104 | 17,104 |
| Total revenues | <u>63,000</u> | <u>59,729</u> | <u>(3,271)</u> |
| OTHER FINANCING SOURCES | | | |
| Transfers out: | | | |
| General Fund | (9,000) | (9,000) | - |
| Total other financing sources (uses) | <u>(9,000)</u> | <u>(9,000)</u> | <u>-</u> |
| Net change in fund balance | 54,000 | 50,729 | (3,271) |
| Fund balance - beginning | <u>673,511</u> | <u>673,511</u> | <u>-</u> |
| Fund balance - ending | <u>\$ 727,511</u> | <u>\$ 724,240</u> | <u>\$ (3,271)</u> |

CITY OF PORTAGE, MICHIGAN

Community Development Block Grant Program Income Fund Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual

**Fiscal Year Ended June 30, 2006
With Comparative Actual Amounts for Fiscal Year Ended June 30, 2005**

| | 2006 | | | |
|--|--------------------|-----------------|--|-----------------|
| | Amended Budget | Actual | Variance with Amended Budget + / (-) | 2005 Actual |
| REVENUES | | | | |
| Loan principal | \$ 60,000 | \$ 98,096 | \$ 38,096 | \$ 129,092 |
| Loan interest | 11,500 | 20,777 | 9,277 | 20,494 |
| Interest on investments | 3,500 | - | (3,500) | - |
| Total revenues | <u>75,000</u> | <u>118,873</u> | <u>43,873</u> | <u>149,586</u> |
| EXPENDITURES | | | | |
| Housing rehabilitation loans | 110,500 | 51,592 | 58,908 | 91,658 |
| Other | 19,500 | 67,282 | (47,782) | 57,926 |
| Total expenditures | <u>130,000</u> | <u>118,874</u> | <u>11,126</u> | <u>149,584</u> |
| Excess (deficiency) of revenues over expenditures | <u>(55,000)</u> | <u>(1)</u> | <u>54,999</u> | <u>2</u> |
| Net change in fund balance | (55,000) | (1) | 54,999 | 2 |
| Fund balance - beginning | <u>6,660</u> | <u>6,660</u> | <u>-</u> | <u>6,658</u> |
| Fund balance - ending | <u>\$ (48,340)</u> | <u>\$ 6,659</u> | <u>\$ 54,999</u> | <u>\$ 6,660</u> |

CITY OF PORTAGE, MICHIGAN

Combining Statement of Net Assets Internal Service Funds

June 30, 2006

| | Equipment Fund | Insurance Fund | Total |
|--|-------------------|-------------------|-------------------|
| ASSETS | | | |
| Current assets: | | | |
| Cash and investments | \$ 357,653 | \$ 843,094 | \$ 1,200,747 |
| Inventory | 82,980 | - | 82,980 |
| Prepaid costs | 70,129 | - | 70,129 |
| Total current assets | <u>510,762</u> | <u>843,094</u> | <u>1,353,856</u> |
| Capital assets: | | | |
| Land | 22,489 | - | 22,489 |
| Land improvements | 123,769 | - | 123,769 |
| Buildings | 1,757,821 | - | 1,757,821 |
| Machinery and equipment | 972,566 | - | 972,566 |
| Vehicles | 3,715,009 | - | 3,715,009 |
| Less accumulated depreciation | (4,679,806) | - | (4,679,806) |
| Total capital assets (net of accumulated depreciation) | <u>1,911,848</u> | <u>-</u> | <u>1,911,848</u> |
| Total assets | <u>2,422,610</u> | <u>843,094</u> | <u>3,265,704</u> |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Accounts payable | 11,060 | - | 11,060 |
| Accrued compensation | 10,916 | - | 10,916 |
| Workers' compensation | - | 717,063 | 717,063 |
| Accrued interest payable | 18,998 | - | 18,998 |
| Current portion of long-term debt | 387,334 | - | 387,334 |
| Total current liabilities | <u>428,308</u> | <u>717,063</u> | <u>1,145,371</u> |
| Long term liabilities: | | | |
| Notes payable (net of current portion) | 80,080 | - | 80,080 |
| Capital lease (net of current portion) | 1,385,333 | - | 1,385,333 |
| Accrued vacation and sick pay | 33,737 | - | 33,737 |
| Total long term liabilities | <u>1,499,150</u> | <u>-</u> | <u>1,499,150</u> |
| Total liabilities | <u>1,927,458</u> | <u>717,063</u> | <u>2,644,521</u> |
| NET ASSETS | | | |
| Invested in capital assets (net of related debt) | 59,101 | - | 59,101 |
| Unrestricted | 436,051 | 126,031 | 562,082 |
| Total net assets | <u>\$ 495,152</u> | <u>\$ 126,031</u> | <u>\$ 621,183</u> |

CITY OF PORTAGE, MICHIGAN

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets

Internal Service Funds

Fiscal Year Ended June 30, 2006

| | Equipment Fund | Insurance Fund | Total |
|--|--------------------------|--------------------------|--------------------------|
| Operating revenues: | | | |
| Charges for services: | | | |
| User charges | \$ 1,872,357 | \$ 373,638 | \$ 2,245,995 |
| Other | 25,757 | - | 25,757 |
| Total operating revenue | <u>1,898,114</u> | <u>373,638</u> | <u>2,271,752</u> |
| Operating expenses: | | | |
| Operations and maintenance: | | | |
| Equipment | 1,442,609 | - | 1,442,609 |
| Workers' compensation | - | 373,638 | 373,638 |
| Depreciation | 405,038 | - | 405,038 |
| Total operating expenses | <u>1,847,647</u> | <u>373,638</u> | <u>2,221,285</u> |
| § Operating income | <u>50,467</u> | <u>-</u> | <u>50,467</u> |
| Nonoperating revenues (expenses): | | | |
| Interest on investments | 13,483 | 27,542 | 41,025 |
| Interest and fiscal charges | (72,880) | - | (72,880) |
| Gain (loss) on sale of fixed assets | 8,930 | - | 8,930 |
| Total nonoperating revenues (expenses) | <u>(50,467)</u> | <u>27,542</u> | <u>(22,925)</u> |
| Change in net assets | - | 27,542 | 27,542 |
| Total net assets - beginning | <u>495,152</u> | <u>98,489</u> | <u>593,641</u> |
| Total net assets - ending | <u><u>\$ 495,152</u></u> | <u><u>\$ 126,031</u></u> | <u><u>\$ 621,183</u></u> |

CITY OF PORTAGE, MICHIGAN

Combining Statement of Cash Flows

Internal Service Funds

Fiscal Year Ended June 30, 2006

| | Equipment Fund | Insurance Fund | Total |
|---|-------------------|-------------------|---------------------|
| OPERATING ACTIVITIES: | | | |
| Cash received from customers | \$ 1,898,745 | 373,638 | \$ 2,272,383 |
| Cash payments to suppliers for goods and services | (1,110,148) | (225,205) | (1,335,353) |
| Cash payments to employees for services | (368,563) | - | (368,563) |
| Cash provided by operating activities | <u>420,034</u> | <u>148,433</u> | <u>568,467</u> |
| CAPITAL AND RELATED FINANCING ACTIVITIES: | | | |
| Proceeds from capital borrowings | 136,537 | - | 136,537 |
| Proceeds from sale of capital assets | 17,305 | - | 17,305 |
| Acquisition and construction of capital assets | (179,692) | - | (179,692) |
| Principal paid on capital lease | (285,141) | - | (285,141) |
| Principal paid on notes | (16,016) | - | (16,016) |
| Interest and fiscal charges paid on capital lease and notes | (72,341) | - | (72,341) |
| Cash used in capital and related financing activities | <u>(399,348)</u> | <u>-</u> | <u>(399,348)</u> |
| INVESTING ACTIVITIES: | | | |
| Interest on investments | 13,483 | 27,542 | 41,025 |
| Cash provided by investing activities | <u>13,483</u> | <u>27,542</u> | <u>41,025</u> |
| Net increase in cash and investments | 34,169 | 175,975 | 210,144 |
| Cash and investments - beginning of year | 323,484 | 667,119 | 990,603 |
| Cash and investments - end of year | <u>\$ 357,653</u> | <u>\$ 843,094</u> | <u>\$ 1,200,747</u> |
| Reconciliation of operating income to net cash provided by operating activities: | | | |
| Operating income | \$ 50,467 | \$ - | \$ 50,467 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | |
| Depreciation | 405,038 | - | 405,038 |
| (Increase) decrease in accounts receivable | 631 | - | 631 |
| (Increase) decrease in inventory | 2,290 | - | 2,290 |
| (Increase) in prepaid costs | (5,478) | - | (5,478) |
| Decrease in accounts payable | (37,411) | - | (37,411) |
| Increase in workers' compensation | - | - | - |
| Increase (decrease) in accrued compensation | 4,497 | 148,433 | 152,930 |
| Net cash provided by operating activities | <u>\$ 420,034</u> | <u>\$ 148,433</u> | <u>\$ 568,467</u> |

CITY OF PORTAGE, MICHIGAN

Combining Statement of Fiduciary Net Assets Pension Trust Funds

June 30, 2006

| | Pension Trust Fund | Retiree Health Care Fund | Total Pension and Employee Benefit Trust Funds |
|--|--------------------------|--------------------------------|--|
| <u>ASSETS</u> | | | |
| Cash and investments | \$ - | \$ 2,090 | \$ 2,090 |
| Cash and investments - non-pooled | - | 1,742,079 | 1,742,079 |
| Investments in fixed income securities | 3,390,348 | - | 3,390,348 |
| Total assets | <u>3,390,348</u> | <u>1,744,169</u> | <u>5,134,517</u> |
| <u>LIABILITIES</u> | | | |
| Deposits | - | - | - |
| Total liabilities | <u>-</u> | <u>-</u> | <u>-</u> |
| <u>NET ASSETS</u> | | | |
| Restricted for pension benefits | 3,390,348 | - | 3,390,348 |
| Restricted for retiree benefits | - | 1,744,169 | 1,744,169 |
| Total net assets | <u>\$ 3,390,348</u> | <u>\$ 1,744,169</u> | <u>\$ 5,134,517</u> |

CITY OF PORTAGE, MICHIGAN

Combining Statement of Changes in Fiduciary Net Assets Pension Trust Funds

Fiscal Year Ended June 30, 2006

| | Pension Trust Fund | Retiree Health Care Fund | Total Pension and Employee Benefit Trust Funds |
|---|--------------------------|--------------------------------|--|
| ADDITIONS | | | |
| Employer contributions | \$ - | \$ 427,320 | \$ 427,320 |
| Investment income | | | |
| Net decrease in the fair value of investments | (323,174) | - | (323,174) |
| Interest income | 164,611 | 68,919 | 233,530 |
| Net investment earnings | (158,563) | 68,919 | (89,644) |
| Total additions | (158,563) | 496,239 | 337,676 |
| DEDUCTIONS | | | |
| Benefits to plan members | (207,018) | - | (207,018) |
| Administrative expenses | (10,703) | - | (10,703) |
| Total deductions | (217,721) | - | (217,721) |
| Change in net assets | (376,284) | 496,239 | 119,955 |
| Net assets - beginning | 3,766,632 | 1,247,930 | 5,014,562 |
| Net assets - ending | \$ 3,390,348 | \$ 1,744,169 | \$ 5,134,517 |

CITY OF PORTAGE, MICHIGAN

Combining Statement of Net Assets Agency Funds

June 30, 2006

| | Current Year Tax Collection | Investment Interest Allocation | Payroll Fund | Trust and Agency | Historic Book | Total Agency Funds |
|---------------------------------------|-----------------------------------|--------------------------------------|-------------------|------------------------|------------------|--------------------------|
| <u>ASSETS</u> | | | | | | |
| Cash and investments | \$ 621,625 | \$ - | \$ - | \$ 112,204 | \$ 67,941 | \$ 801,770 |
| Accounts receivable | 25,246 | - | 393,507 | - | - | 418,753 |
| Accrued interest receivable | - | 433,933 | - | - | - | 433,933 |
| Total assets | <u>646,871</u> | <u>433,933</u> | <u>393,507</u> | <u>112,204</u> | <u>67,941</u> | <u>1,654,456</u> |
| <u>LIABILITIES</u> | | | | | | |
| Checks issued against future deposits | - | - | 290,648 | - | - | 290,648 |
| Payroll withholdings payable | - | - | 99,585 | - | - | 99,585 |
| Accrued interest payable | - | 433,933 | - | - | - | 433,933 |
| Due to other governments | 646,871 | - | - | - | - | 646,871 |
| Deposits | - | - | 3,274 | 112,204 | 67,941 | 183,419 |
| Total liabilities | <u>\$ 646,871</u> | <u>\$ 433,933</u> | <u>\$ 393,507</u> | <u>\$ 112,204</u> | <u>\$ 67,941</u> | <u>\$ 1,654,456</u> |

CITY OF PORTAGE, MICHIGAN
Statement of Changes in Agency Fund Assets and Liabilities
Fiduciary Funds
Fiscal Year Ended June 30, 2006

Current year Tax Collection Fund

| | Balance June 30, 2005 | Additions | Deductions | Balance June 30, 2006 |
|--------------------------|--------------------------|-----------------------|-----------------------|--------------------------|
| <u>ASSETS</u> | | | | |
| Cash and investments | \$ 551,529 | \$ 81,151,629 | \$ 81,081,533 | \$ 621,625 |
| Accounts receivable | 215,739 | 1,591,836 | 1,782,329 | 25,246 |
| <u>TOTAL ASSETS</u> | <u>\$ 767,268</u> | <u>\$ 82,743,465</u> | <u>\$ 82,863,862</u> | <u>\$ 646,871</u> |
| <u>LIABILITIES</u> | | | | |
| Accounts payable | \$ 767,268 | \$ 161,196,462 | \$ 161,316,859 | \$ 646,871 |
| <u>TOTAL LIABILITIES</u> | <u>\$ 767,268</u> | <u>\$ 161,196,462</u> | <u>\$ 161,316,859</u> | <u>\$ 646,871</u> |

Investment Interest Allocation Fund

| | Balance June 30, 2005 | Additions | Deductions | Balance June 30, 2006 |
|-----------------------------|--------------------------|-------------------|-------------------|--------------------------|
| <u>ASSETS</u> | | | | |
| Accrued interest receivable | \$ 299,764 | \$ 882,732 | \$ 748,563 | \$ 433,933 |
| <u>TOTAL ASSETS</u> | <u>\$ 299,764</u> | <u>\$ 882,732</u> | <u>\$ 748,563</u> | <u>\$ 433,933</u> |
| <u>LIABILITIES</u> | | | | |
| Accounts payable | \$ 299,764 | \$ 882,732 | \$ 748,563 | \$ 433,933 |
| <u>TOTAL LIABILITIES</u> | <u>\$ 299,764</u> | <u>\$ 882,732</u> | <u>\$ 748,563</u> | <u>\$ 433,933</u> |

Payroll Fund

| | Balance June 30, 2005 | Additions | Deductions | Balance June 30, 2006 |
|---------------------------------------|--------------------------|----------------------|----------------------|--------------------------|
| <u>ASSETS</u> | | | | |
| Cash and investments | \$ - | \$ 37,895,541 | \$ 37,895,541 | \$ - |
| Accounts receivable | 324,220 | 615,073 | 545,786 | 393,507 |
| <u>TOTAL ASSETS</u> | <u>\$ 324,220</u> | <u>\$ 38,510,614</u> | <u>\$ 38,441,327</u> | <u>\$ 393,507</u> |
| <u>LIABILITIES</u> | | | | |
| Checks issued against future deposits | \$ 324,064 | \$ - | \$ 33,416 | \$ 290,648 |
| Accounts payable | 156 | 17,483,897 | 17,384,468 | 99,585 |
| Deposits | - | 972,239 | 968,965 | 3,274 |
| <u>TOTAL LIABILITIES</u> | <u>\$ 324,220</u> | <u>\$ 18,456,136</u> | <u>\$ 18,386,849</u> | <u>\$ 393,507</u> |

continued ...

CITY OF PORTAGE, MICHIGAN
Statement of Changes in Agency Fund Assets and Liabilities
Fiduciary Funds
Fiscal Year Ended June 30, 2006
(concluded)

Trust and Agency Fund

| | Balance June 30, 2005 | Additions | Deductions | Balance June 30, 2006 |
|--------------------------|--------------------------|-------------------|-------------------|--------------------------|
| <u>ASSETS</u> | | | | |
| Cash and investments | \$ 96,610 | \$ 187,190 | \$ 171,596 | \$ 112,204 |
| Accounts receivable | 3,631 | 175,062 | 178,693 | - |
| <u>TOTAL ASSETS</u> | <u>\$ 100,241</u> | <u>\$ 362,252</u> | <u>\$ 350,289</u> | <u>\$ 112,204</u> |
| <u>LIABILITIES</u> | | | | |
| Deposits | \$ 100,241 | \$ 183,502 | \$ 171,539 | \$ 112,204 |
| <u>TOTAL LIABILITIES</u> | <u>\$ 100,241</u> | <u>\$ 183,502</u> | <u>\$ 171,539</u> | <u>\$ 112,204</u> |

Historic Book Fund

| | Balance June 30, 2005 | Additions | Deductions | Balance June 30, 2006 |
|--------------------------|--------------------------|------------------|-------------|--------------------------|
| <u>ASSETS</u> | | | | |
| Cash and investments | \$ 2,100 | \$ 65,841 | \$ - | \$ 67,941 |
| <u>TOTAL ASSETS</u> | <u>\$ 2,100</u> | <u>\$ 65,841</u> | <u>\$ -</u> | <u>\$ 67,941</u> |
| <u>LIABILITIES</u> | | | | |
| Deposits | \$ 2,100 | \$ 65,841 | \$ - | \$ 67,941 |
| <u>TOTAL LIABILITIES</u> | <u>\$ 2,100</u> | <u>\$ 65,841</u> | <u>\$ -</u> | <u>\$ 67,941</u> |

Combined Fiduciary Funds

| | Balance June 30, 2005 | Additions | Deductions | Balance June 30, 2006 |
|---------------------------------------|--------------------------|-----------------------|-----------------------|--------------------------|
| <u>ASSETS</u> | | | | |
| Cash and investments | \$ 650,239 | \$ 119,300,201 | \$ 119,148,670 | \$ 801,770 |
| Accounts receivable | 843,354 | 3,264,703 | 3,255,371 | 852,686 |
| <u>TOTAL ASSETS</u> | <u>\$ 1,493,593</u> | <u>\$ 122,564,904</u> | <u>\$ 122,404,041</u> | <u>\$ 1,654,456</u> |
| <u>LIABILITIES</u> | | | | |
| Checks issued against future deposits | \$ 324,064 | \$ - | \$ 33,416 | \$ 290,648 |
| Accounts payable | 1,067,188 | 179,563,091 | 179,449,890 | 1,180,389 |
| Deposits | 102,341 | 1,221,582 | 1,140,504 | 183,419 |
| <u>TOTAL LIABILITIES</u> | <u>\$ 1,493,593</u> | <u>\$ 180,784,673</u> | <u>\$ 180,623,810</u> | <u>\$ 1,654,456</u> |

CITY OF PORTAGE, MICHIGAN

Capital Assets Used in the Operation of Governmental Funds Comparative Schedules by Source ⁽¹⁾ June 30, 2006

| | <u>TOTAL</u> |
|---|----------------------------------|
| Governmental funds capital assets: | |
| Land | \$ 7,867,690 |
| Land improvements | 6,325,030 |
| Buildings | 11,609,425 |
| Machinery and equipment | 5,079,326 |
| Vehicles | 4,191,244 |
| Infrastructure | <u>183,538,064</u> |
| Total governmental funds capital assets | <u><u>\$ 218,610,779</u></u> |
| Investments in governmental funds capital assets by source: | |
| General fund | \$ 34,467,904 |
| Cable television fund | 314,355 |
| Leaf Pickup / Spring Cleanup fund | 290,456 |
| Capital projects funds | <u>183,538,064</u> |
| Total investment in governmental funds capital assets | <u><u>\$ 218,610,779</u></u> |

⁽¹⁾ This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets.

CITY OF PORTAGE, MICHIGAN
Capital Assets Used in the Operation of Governmental Funds
Schedules by Function and Activity ⁽¹⁾
June 30, 2006

| Function and Activity | Land | Land Improvements | Buildings | Machinery and Equipment | Vehicles | Infrastructure | TOTAL |
|--|--------------|-------------------|---------------|-------------------------|--------------|----------------|----------------|
| General government: | | | | | | | |
| Legislative | \$ - | \$ - | \$ - | \$ 5,404 | \$ - | \$ - | \$ 5,404 |
| Executive | - | - | - | 381,362 | - | - | 381,362 |
| Clerk | - | - | - | 15,250 | - | - | 15,250 |
| Finance/treasury | - | - | - | 1,459,359 | - | - | 1,459,359 |
| Assessor | - | - | - | 8,546 | - | - | 8,546 |
| Community Development | - | - | - | 166,910 | - | - | 166,910 |
| Other - unclassified | 5,695,403 | 339,854 | 3,003,513 | 28,106 | - | - | 9,066,876 |
| Total general government | 5,695,403 | 339,854 | 3,003,513 | 2,064,937 | - | - | 11,103,707 |
| Public safety: | | | | | | | |
| Police | 19,000 | 38,236 | 3,086,508 | 1,354,633 | 874,874 | - | 5,373,251 |
| Fire | 365,036 | 77,056 | 2,971,182 | 483,953 | 3,148,992 | - | 7,046,219 |
| Total public safety | 384,036 | 115,292 | 6,057,690 | 1,838,586 | 4,023,866 | - | 12,419,470 |
| Public works: | - | - | - | 27,805 | - | - | 27,805 |
| Highways and streets: | | | | | | | |
| Land | - | - | - | - | - | 359,305 | 359,305 |
| Right of way | - | - | - | - | - | 4,132,608 | 4,132,608 |
| Water & sewer system | - | - | - | - | - | 978,383 | 978,383 |
| Streets and alleys | - | - | - | - | - | 163,761,906 | 163,761,906 |
| Bikeways | - | - | - | - | - | 404,758 | 404,758 |
| Sidewalks | - | - | - | - | - | 7,789,955 | 7,789,955 |
| Bridges | - | - | - | - | - | 1,188,922 | 1,188,922 |
| Retaining walls | - | - | - | - | - | 502,656 | 502,656 |
| Traffic signals | - | - | - | - | - | 4,419,571 | 4,419,571 |
| Total highways and streets: | - | - | - | - | - | 183,538,064 | 183,538,064 |
| Recreation and cultural: | | | | | | | |
| Senior Citizen Center | 44,000 | 38,200 | 457,452 | 25,825 | - | - | 565,477 |
| Parks and recreation | 1,627,503 | 5,789,854 | 2,090,770 | 843,318 | - | - | 10,351,445 |
| Cable Television | - | - | - | 278,855 | 35,500 | - | 314,355 |
| Total recreation and cultural: | 1,671,503 | 5,828,054 | 2,548,222 | 1,147,998 | 35,500 | - | 11,231,277 |
| Health and welfare: | | | | | | | |
| Leaf Pickup / Spring Clean | 116,748 | 41,830 | - | - | 131,878 | - | 290,456 |
| Total governmental funds capital assets: | \$ 7,867,690 | \$ 6,325,030 | \$ 11,609,425 | \$ 5,079,326 | \$ 4,191,244 | \$ 183,538,064 | \$ 218,610,779 |

⁽¹⁾ This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets

CITY OF PORTAGE, MICHIGAN

Capital Assets Used in the Operation of Governmental Funds Schedule of Changes by Function and Activity ⁽¹⁾ Fiscal Year Ended June 30, 2006

| Function and Activity | Capital Assets July 1, 2005 | Additions | Deductions | Capital Assets June 30, 2006 |
|---|-----------------------------------|--------------|-------------|------------------------------------|
| General government: | | | | |
| Legislature | \$ 5,404 | \$ - | \$ - | \$ 5,404 |
| Executive | 381,362 | - | - | 381,362 |
| Clerk | 15,250 | - | - | 15,250 |
| Finance/treasury | 1,417,625 | 41,734 | - | 1,459,359 |
| Assessor | 8,546 | - | - | 8,546 |
| Community Development | 148,615 | 18,295 | - | 166,910 |
| Other - unclassified | 9,041,576 | 25,300 | - | 9,066,876 |
| Total general government | 11,018,378 | 85,329 | - | 11,103,707 |
| Public safety: | | | | |
| Police | 5,266,027 | 154,139 | (46,915) | 5,373,251 |
| Fire | 7,038,419 | 7,800 | - | 7,046,219 |
| Total public safety | 12,304,446 | 161,939 | (46,915) | 12,419,470 |
| Public works | 27,805 | - | - | 27,805 |
| Infrastructure | 177,869,709 | 5,668,355 | - | 183,538,064 |
| Recreation and cultural: | | | | |
| Senior citizen center | 565,477 | - | - | 565,477 |
| Parks and recreation | 10,161,176 | 190,269 | - | 10,351,445 |
| Total recreation and cultural | 10,726,653 | 190,269 | - | 10,916,922 |
| Cable television | 314,355 | - | - | 314,355 |
| Leaf pickup / Spring cleanup | 290,456 | - | - | 290,456 |
| Total governmental funds capital assets | \$ 212,551,802 | \$ 6,105,892 | \$ (46,915) | \$ 218,610,779 |

⁽¹⁾ This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets.

STATISTICAL SECTION

This part of the City of Portage's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the city's overall financial health.

| <u>Contents</u> | <u>Page</u> |
|--|--------------------|
| Financial Trends <i>These schedules contain trend information to help the reader understand how the city's financial performance and well-being have changed over time.</i> | 103 |
| Revenue Capacity <i>These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.</i> | 108 |
| Debt Capacity <i>These schedules present information to help the reader assess the affordability of the city's current levels of outstanding debt and the city's ability to issue additional debt in the future.</i> | 112 |
| Demographic and Economic Information <i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the city's financial activities take place and to help make comparisons over time and with other governments.</i> | 117 |
| Operating Information <i>These schedules contain information about the city's operations and resources to help the reader understand how the city's financial information relates to the services the city provides and the activities it performs.</i> | 119 |

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The city implemented Statement 34 in 2003; schedules presenting government-wide information include information beginning in that year.

CITY OF PORTAGE, MICHIGAN

Net Assets by Component Last Four Fiscal Years (accrual basis of accounting) (expressed in thousands)

| | Fiscal Year | | | |
|---|-------------------|-------------------|-------------------|-------------------|
| | 2003 | 2004 | 2005 | 2006 |
| Governmental activities | | | | |
| Invested in capital assets, net of related debt | \$ 55,223 | \$ 30,168 | \$ 24,041 | \$ 15,355 |
| Restricted | 7,351 | 9,243 | 7,839 | 8,249 |
| Unrestricted | 5,351 | 19,806 | 17,952 | 20,132 |
| Total governmental activities net assets | <u>67,925</u> | <u>59,217</u> | <u>49,832</u> | <u>43,736</u> |
| Business-type activities | | | | |
| Invested in capital assets, net of related debt | 67,375 | 66,191 | 63,612 | 62,917 |
| Restricted | 700 | 700 | 200 | 200 |
| Unrestricted | 4,131 | 1,400 | 2,208 | 1,134 |
| Total business-type activities net assets | <u>72,206</u> | <u>68,291</u> | <u>66,020</u> | <u>64,251</u> |
| Primary Government | | | | |
| Invested in capital assets, net of related debt | 122,598 | 96,359 | 87,653 | 78,271 |
| Restricted | 8,051 | 9,943 | 8,039 | 8,449 |
| Unrestricted | 9,482 | 21,206 | 20,161 | 21,266 |
| Total primary governmental net assets | <u>\$ 140,131</u> | <u>\$ 127,509</u> | <u>\$ 115,852</u> | <u>\$ 107,986</u> |

CITY OF PORTAGE, MICHIGAN

Changes in Net Assets Last Four Fiscal Years (accrual basis of accounting) (expressed in thousands)

| | Fiscal Year | | | |
|--|-------------|-----------|-----------|-----------|
| | 2003 | 2004 | 2005 | 2006 |
| Expenses | | | | |
| Governmental activities: | | | | |
| Legislative | \$ 50 | \$ 45 | \$ 48 | \$ 54 |
| Judicial | 145 | 7 | 12 | 17 |
| General government | 5,233 | 5,873 | 6,014 | 5,515 |
| Public safety | 12,471 | 13,968 | 14,352 | 14,383 |
| Public works | 361 | 363 | 357 | 420 |
| Health and welfare | 1,878 | 1,469 | 1,714 | 1,560 |
| Economic development | - | - | 2,535 | 1,952 |
| Recreation and cultural | 3,227 | 3,159 | 3,125 | 3,240 |
| Public transportation | 78 | 112 | 118 | 151 |
| Highways and streets | 3,750 | 5,747 | 5,483 | 2,327 |
| Unallocated depreciation expense | 6,901 | 7,007 | 7,023 | 7,107 |
| Interest on long-term debt | 2,116 | 3,016 | 2,739 | 3,251 |
| Total governmental activities expenses | 36,211 | 40,767 | 43,520 | 39,977 |
| Business-type activities: | | | | |
| Sewer | 4,238 | 5,143 | 5,472 | 5,723 |
| Water | 3,229 | 6,742 | 4,969 | 4,931 |
| Total business-type activities expenses | 7,467 | 11,885 | 10,441 | 10,654 |
| Total primary government expenses | \$ 43,678 | \$ 52,653 | \$ 53,961 | \$ 50,631 |
| Program revenues | | | | |
| Governmental activities: | | | | |
| Charges for services | 2,396 | 2,313 | 2,475 | 2,440 |
| Operating grants and contributions | | | | |
| Highways & streets | 3,406 | 3,706 | 3,623 | 3,578 |
| Other activities | 1,457 | 944 | 1,369 | 1,248 |
| Capital grants and contributions | | | | |
| Public works | 1,024 | 1,138 | 978 | 1,053 |
| Health & welfare | 1,003 | 1,282 | 1,182 | 1,242 |
| Other activities | 0 | 48 | 150 | 60.68 |
| Total governmental activities program revenues | 9,285 | 9,431 | 9,777 | 9,621 |

| | Fiscal Year | | | |
|---|-------------|-------------|-------------|-------------|
| | 2003 | 2004 | 2005 | 2006 |
| Business-type activities: | | | | |
| Charges for services | | | | |
| Sewer | 4,106 | 4,148 | 4,432 | 4,879 |
| Water | 3,391 | 3,302 | 3,540 | 3,869 |
| Operating grants and contributions | 105 | 78 | 98 | 97 |
| Capital grants and contributions | - | - | - | 2 |
| Total business-type activities program revenues | 7,602 | 7,528 | 8,070 | 8,847 |
| Total primary government program revenues | 16,888 | 16,959 | 17,847 | 18,469 |
| Net (expense)/revenue | | | | |
| Governmental activities: | \$ (26,926) | \$ (31,336) | \$ (33,743) | \$ (30,356) |
| Business-type activities | 135 | (4,357) | (2,371) | (1,806) |
| Total primary government net expense | \$ (26,790) | \$ (35,693) | \$ (36,114) | \$ (32,162) |
| General Revenues & Other Changes in Net Assets | | | | |
| Governmental activities: | | | | |
| Property taxes | 15,305 | 16,583 | 17,928 | 17,936 |
| Unrestricted grants & contributions | 6,211 | 6,242 | 6,207 | 5,758 |
| Unrestricted investment earnings | 104 | 161 | 296 | 593 |
| Gain on sale of capital assets | 6 | 3 | 26 | 9 |
| Transfers | 82 | (442) | (100) | (37) |
| Total governmental activities | 21,709 | 22,547 | 24,358 | 24,259 |
| Business-type activities: | | | | |
| Unrestricted grants & contributions | 1,474 | - | - | - |
| Transfers | (82) | 442 | 100 | 37 |
| Total business-type activities | 1,392 | 442 | 100 | 37 |
| Total primary government | \$ 23,101 | \$ 22,989 | \$ 24,458 | \$ 24,296 |
| Change in Net Assets | | | | |
| Governmental activities | (5,217) | (8,789) | (9,385) | (6,097) |
| Business-type activities | 1,528 | (3,915) | (2,271) | (1,769) |
| Total primary government | \$ (3,689) | \$ (12,704) | \$ (11,656) | \$ (7,866) |

CITY OF PORTAGE, MICHIGAN
Fund Balances of Governmental Funds
Last Four Fiscal Years
(modified accrual basis of accounting)
(expressed in thousands)

| | Fiscal Year | | | |
|-------------------------------------|-----------------|------------------|-----------------|------------------|
| | 2003 | 2004 | 2005 | 2006 |
| General fund | | | | |
| Reserved | \$ 749 | \$ 1,324 | \$ 1,109 | \$ 1,077 |
| Unreserved | 2,568 | 2,405 | 2,967 | 3,337 |
| Total general fund | <u>3,317</u> | <u>3,729</u> | <u>4,076</u> | <u>4,414</u> |
| All other governmental funds | | | | |
| Reserved | 2,418 | 4,313 | 2,818 | 5,142 |
| Unreserved, reported in: | | | | |
| Special assessments fund | 3,391 | 3,124 | 2,801 | 4,440 |
| Local Development Finance Authority | - | 3,164 | - | - |
| Streets funds | 154 | 645 | 626 | 539 |
| Nonmajor governmental funds | 279 | 294 | 455 | 401 |
| Total all other governmental funds | <u>\$ 6,242</u> | <u>\$ 11,539</u> | <u>\$ 6,700</u> | <u>\$ 10,523</u> |

CITY OF PORTAGE, MICHIGAN
Changes in Fund Balances of Governmental Funds
Last Four Fiscal Years
(modified accrual basis of accounting)
(expressed in thousands)

| | Fiscal Year | | | |
|---|---------------|-----------------|-------------------|-----------------|
| | 2003 | 2004 | 2005 | 2006 |
| Revenues | | | | |
| Taxes and special assessments | \$ 17,127 | \$ 18,152 | \$ 19,737 | \$ 21,612 |
| Licenses and permits | 1,177 | 1,185 | 1,271 | 1,189 |
| Intergovernmental | 8,783 | 8,393 | 8,274 | 8,296 |
| Charges for services | 2,528 | 2,872 | 2,854 | 2,492 |
| Fines and forfeits | 116 | - | 4 | - |
| Interest and rents | 760 | 879 | 955 | 1,522 |
| Other | 409 | 315 | 998 | 458 |
| Total revenues | <u>30,900</u> | <u>31,796</u> | <u>34,094</u> | <u>35,569</u> |
| Expenditures | | | | |
| Legislative | 50 | 45 | 48 | 54 |
| Judicial | 145 | 7 | 12 | 17 |
| General government | 4,724 | 5,047 | 5,264 | 5,220 |
| Public safety | 11,529 | 12,538 | 13,278 | 13,460 |
| Public works | 332 | 335 | 339 | 357 |
| Health and welfare | 1,862 | 1,437 | 1,694 | 1,545 |
| Recreation and cultural | 2,815 | 2,736 | 2,699 | 2,841 |
| Public transportation | 78 | 107 | 113 | 149 |
| Highways and streets | 3,694 | 3,310 | 3,755 | 3,021 |
| Refund of tax revenues | - | - | - | 10 |
| Development | - | - | 2,535 | 1,952 |
| Capital outlay | 9,265 | 8,460 | 10,488 | 5,511 |
| Debt service: | | | | |
| Principal | 2,207 | 2,943 | 3,366 | 3,223 |
| Interest and fiscal charges | 1,981 | 2,224 | 2,591 | 2,803 |
| Total expenditures | <u>38,683</u> | <u>39,189</u> | <u>46,183</u> | <u>40,165</u> |
| Excess of revenues over (under) expenditures | (7,782) | (7,393) | (12,089) | (4,596) |
| Other financing sources (uses) | | | | |
| Issuance of debt | 8,443 | 13,242 | 8,063 | 8,794 |
| Transfers in | 4,448 | 6,012 | 5,245 | 5,731 |
| Transfers out | (4,366) | (6,753) | (5,712) | (5,768) |
| Total other financing sources (uses) | <u>8,525</u> | <u>12,501</u> | <u>7,596</u> | <u>8,757</u> |
| Net change in fund balances | <u>\$ 742</u> | <u>\$ 5,109</u> | <u>\$ (4,493)</u> | <u>\$ 4,161</u> |
| Debt service as a percentage of noncapital expenditures | 12.1% | 15.2% | 14.8% | 17.7% |

CITY OF PORTAGE, MICHIGAN
(unaudited)
Assessed Value and Estimated Market Value of Taxable Property
Last Ten Fiscal Years
(in thousands of dollars)

| Fiscal Year Ended June 30, | Real Property | | Personal Property | | Less: Tax Exempt Real Property ⁽²⁾ | Total Taxable Assessed Value | Total Direct Tax Rate | Estimated Market Value | Assessed Value as a Percentage of Market Value |
|----------------------------------|-------------------------|------------------------|----------------------------|-------|---|------------------------------------|--------------------------------|------------------------------|---|
| | Residential Property | Commercial Property | Manufacturing Equipment | Other | | | | | |
| 1997 | 631,749 | 322,732 | 224,518 | 28 | 46,260 | 1,132,767 | 11.000 | 2,265,533 | 50.0% |
| 1998 | 692,466 | 333,163 | 265,137 | 25 | 49,709 | 1,241,082 | 11.334 | 2,482,165 | 50.0% |
| 1999 | 745,563 | 345,363 | 279,607 | 25 | 52,873 | 1,317,685 | 10.177 | 2,635,370 | 50.0% |
| 2000 | 794,304 | 386,753 | 293,155 | 19 | 57,242 | 1,416,990 | 10.100 | 2,833,979 | 50.0% |
| 2001 | 837,766 | 422,894 | 261,452 | 17 | 61,100 | 1,461,028 | 10.000 | 2,922,057 | 50.0% |
| 2002 | 877,796 | 470,277 | 318,262 | 20 | 65,336 | 1,601,019 | 10.000 | 3,202,039 | 50.0% |
| 2003 | 939,312 | 552,558 | 311,534 | 23 | 72,306 | 1,731,122 | 10.302 | 3,462,244 | 50.0% |
| 2004 | 1,010,201 | 548,090 | 319,845 | - | 75,525 | 1,802,611 | 10.144 | 3,605,222 | 50.0% |
| 2005 | 1,083,196 | 573,222 | 330,008 | - | 80,281 | 1,906,146 | 10.144 | 3,812,292 | 50.0% |
| 2006 | 1,147,909 | 597,627 | 330,667 | - | \$ 84,600 | \$ 1,991,603 | 10.144 | \$ 3,983,205 | 50.0% |

(1) According to State Statute, all property is to be assessed at 50 percent of market value (State Equalized Value).

(2) Tax exempt real property estimated prior to 2006.

SOURCE: City Assessor's Office, L-4022 Report

CITY OF PORTAGE, MICHIGAN
(unaudited)
Property Tax Rates
Direct and Overlapping¹ Governments
(Per \$1,000 of Taxable Value)
Last Ten Fiscal Years

| Fiscal Year Ended June 30, | City of Portage | | | | | | Total City Millage |
|----------------------------------|-----------------|---------|-------------------------|-----------------|-----------------------|---|-----------------------|
| | General Fund | Library | Capital Improvements | Debt Service | Curbside Recycling | Fall Leaf/ Spring Clean ⁽¹⁾ | |
| 1997 | 7.0000 | 1.3800 | 2.0000 | 0.2290 | 0.3910 | - | 11.0000 |
| 1998 | 7.2100 | 1.1570 | 2.0000 | 0.2130 | 0.4200 | 0.3340 | 11.3340 |
| 1999 | 7.1559 | - | 2.0000 | 0.2011 | 0.4200 | 0.4000 | 10.1770 |
| 2000 | 7.1469 | - | 2.0000 | 0.1931 | 0.3600 | 0.4000 | 10.1000 |
| 2001 | 7.0849 | - | 2.0000 | 0.1931 | 0.4350 | 0.2870 | 10.0000 |
| 2002 | 7.1480 | - | 2.0000 | 0.1920 | 0.3730 | 0.2870 | 10.0000 |
| 2003 | 7.4672 | - | 2.0000 | 0.1575 | 0.2900 | 0.3870 | 10.3017 |
| 2004 | 7.3592 | - | 2.0000 | - | 0.3850 | 0.4000 | 10.1442 |
| 2005 | 7.4712 | - | 2.0000 | - | 0.3200 | 0.3530 | 10.1442 |
| 2006 | 7.4372 | - | 2.0000 | - | 0.3070 | 0.4000 | 10.1442 |

| Fiscal Year Ended June 30, | Overlapping Rates | | | | | | Total Direct & Overlapping Rates |
|----------------------------------|---------------------------|---|--------------------------------|---------------------|--|---|---|
| | State Education Tax | Portage Public Schools ⁽²⁾ | Portage District Library | Kalamazoo County | Kalamazoo Regional Educational Service Agency | Kalamazoo Valley Community College | |
| 1997 | 6.0000 | 2.6762 | - | 6.1405 | 3.0500 | 2.8231 | 31.6898 |
| 1998 | 6.0000 | 2.6762 | - | 5.8405 | 3.0500 | 2.8231 | 31.7238 |
| 1999 | 6.0000 | 2.6762 | 1.4200 | 6.1400 | 3.0500 | 2.8231 | 32.2863 |
| 2000 | 6.0000 | 2.6762 | 1.3800 | 6.1400 | 3.0418 | 2.8152 | 32.1532 |
| 2001 | 6.0000 | 3.7000 | 1.4900 | 6.1400 | 3.0416 | 2.8151 | 33.1867 |
| 2002 | 6.0000 | 3.7000 | 1.4900 | 6.1400 | 3.0416 | 2.8151 | 33.1867 |
| 2003 | 6.0000 | 3.7000 | 1.4900 | 6.1362 | 3.0416 | 2.8139 | 33.4834 |
| 2004 | 5.0000 | 3.7000 | 1.4900 | 6.1362 | 3.0416 | 2.8139 | 32.3259 |
| 2005 | 6.0000 | 3.7000 | 1.4900 | 6.1362 | 3.0416 | 2.8135 | 33.3255 |
| 2006 | 6.0000 | 3.7000 | 1.4900 | 6.1362 | 3.0416 | 2.8135 | 33.3255 |

Notes:

1 Overlapping rates are those of local and county government that apply to property owners within the City of Portage. Not all overlapping rates apply to all City of Portage property owners (e.g., the rates for special districts apply only to the proportion of the government's property owners whose property is located within the geographic boundaries of the special district.)

(2) Non homestead properties add 18 mills

SOURCE: Treasury Office

CITY OF PORTAGE, MICHIGAN

(unaudited)

Principal Property Taxpayers Current Year and Nine Years Ago June 30, 2006

| Name | 2006 | | | 1997 | | |
|---|------------------------|------|--|------------------------|------|--|
| | Taxable Assessed Value | Rank | Percentage of Total Taxable Assessed Value | Taxable Assessed Value | Rank | Percentage of Total Taxable Assessed Value |
| Pfizer , Inc. (fka Pharmacia & Upjohn, Inc) | \$ 305,288,102 | 1 | 16.67 % | \$ 295,181,200 | 1 | 24.34 % |
| Stryker Corporation | 21,379,798 | 2 | 1.17 | 13,890,400 | 5 | 1.15 |
| Crossroads Mall / Portfolio One, LLC | 19,988,802 | 3 | 1.09 | 25,823,600 | 2 | 2.13 |
| Consumers Power Co. | 16,943,440 | 4 | 0.92 | 16,107,600 | 4 | 1.33 |
| Edward Rose Associates | 11,761,964 | 5 | 0.64 | 8,492,500 | 6 | 0.70 |
| Mann+Hummel | 10,689,155 | 6 | 0.58 | - | | - |
| Meijer, Inc. | 8,467,573 | 7 | 0.46 | 5,553,200 | 10 | 0.46 |
| State Farm Mutual Auto Insurance Co. | 7,329,600 | 8 | 0.40 | - | | - |
| Bowers Manufacturing | 7,179,467 | 9 | 0.39 | - | | - |
| Southland Mall Ltd | 7,036,952 | 10 | 0.38 | 21,809,400 | 3 | 1.80 |
| Summit Polymers / Mueller Plastics | - | | - | 7,487,600 | 7 | 0.62 |
| Moors Investments/Woodbridge Development | - | | - | 6,951,600 | 8 | 0.57 |
| Target/Portage Crossings | - | | - | 6,879,800 | 9 | 0.57 |
| Totals | <u>\$ 416,064,853</u> | | <u>22.71 %</u> | <u>\$ 408,176,900</u> | | <u>33.67 %</u> |

SOURCE: City Assessor's Office

CITY OF PORTAGE, MICHIGAN

(unaudited)

Property Tax Levies and Collections

Last Ten Fiscal Years

(expressed in thousands)

| Fiscal Year Ended June 30, | Total Tax Levy for Fiscal Year | Collected within the Fiscal Year of the Levy | | | Total Collections to Date | |
|--------------------------------------|--|---|-----------------------|------------------------------------|---------------------------|--------------------|
| | | Collected by due date | Percentage of Levy | Collections in subsequent years | Amount | Percentage of Levy |
| 1997 | \$ 12,944 | \$ 12,725 | 98.3% | \$ 8 | \$ 12,733 | 98.4% |
| 1998 | 14,182 | 13,989 | 98.6% | 11 | 14,000 | 98.7% |
| 1999 | 13,643 | 13,425 | 98.4% | 9 | 13,434 | 98.5% |
| 2000 | 14,198 | 13,941 | 98.2% | 10 | 13,951 | 98.3% |
| 2001 | 14,300 | 13,992 | 97.8% | 10 | 14,002 | 97.9% |
| 2002 | 15,575 | 14,833 | 95.2% | 19 | 14,851 | 95.4% |
| 2003 | 15,849 | 15,542 | 98.1% | 23 | 15,565 | 98.2% |
| 2004 | 16,661 | 16,372 | 98.3% | 25 | 16,397 | 98.4% |
| 2005 | 17,714 | 17,530 | 99.0% | 16 | 17,546 | 99.1% |
| 2006 | 18,589 | 18,334 | 98.6% | 238 | 18,572 | 99.9% |

Notes:

The city hold only delinquent personal property taxes: any real estate taxes not collected by the date due are turned over to Kalamazoo County as of March 1st each year, and the city receives full settlement.

SOURCE: Treasury Office

CITY OF PORTAGE, MICHIGAN
(unaudited)
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years
(expressed in thousands, except per capita)

| June 30, | Fiscal Year | | | | | | | | | |
|--|-------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| Governmental Activities | | | | | | | | | | |
| General Obligation bonds | \$ 3,540 | \$ 2,802 | \$ 2,556 | \$ 3,511 | \$ 2,652 | \$ 2,254 | \$ 2,920 | \$ 2,666 | \$ 2,913 | \$ 2,543 |
| Special Assessment bonds | 6,695 | 6,050 | 5,855 | 6,585 | 6,789 | 6,529 | 8,394 | 8,314 | 8,054 | 7,415 |
| Motor Vehicle Highway bonds | 8,100 | 12,280 | 11,495 | 13,220 | 12,675 | 15,390 | 14,900 | 14,230 | 13,530 | 12,780 |
| Capital Improvement bonds | - | - | - | - | - | - | 5,480 | 10,985 | 17,643 | 22,418 |
| Redevelopment bonds | 6,720 | 6,375 | 7,280 | 11,205 | 12,500 | 18,965 | 18,480 | 24,000 | 23,065 | 25,455 |
| Other debt | 818 | 487 | 463 | 210 | 148 | 98 | 48 | - | - | - |
| Total governmental activities | 25,873 | 27,994 | 27,649 | 34,730 | 34,764 | 43,236 | 50,222 | 60,195 | 65,205 | 70,611 |
| Business-Type Activities | | | | | | | | | | |
| Utility Revenue bonds | 8,140 | 9,345 | 8,965 | 8,585 | 11,505 | 14,325 | 17,770 | 19,525 | 16,155 | 15,600 |
| Capital Improvement bonds | - | - | - | - | - | - | - | - | 8,732 | 9,932 |
| General Obligation bonds | 3,604 | 3,825 | 3,813 | 3,475 | 4,379 | 4,290 | 5,055 | 5,299 | 4,202 | 3,742 |
| Capital Lease | 1,750 | 1,500 | 1,250 | 1,000 | 750 | 500 | 250 | - | - | - |
| Total business-type activities | \$ 13,494 | \$ 14,670 | \$ 14,028 | \$ 13,060 | \$ 16,634 | \$ 19,115 | \$ 23,075 | \$ 24,824 | \$ 29,089 | \$ 29,274 |
| Percentage of personal income ⁽¹⁾ | 0.059% | 0.062% | 0.057% | 0.051% | 0.063% | 0.071% | 0.084% | 0.086% | 0.098% | 0.096% |
| Per capita | 301.83 | 327.66 | 312.89 | 290.90 | 372.06 | 425.33 | 505.17 | 545.86 | 642.48 | 645.46 |

Notes: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

⁽¹⁾ See the Schedule of Demographic and Economic Statistics on page 222 for personal income and population data.

SOURCE: City Annual Financial Statements

CITY OF PORTAGE, MICHIGAN
(unaudited)
Ratios of General Bonded Debt Outstanding
Last Ten Fiscal Years
(expressed in thousands, except per capita)

| <u>Fiscal Year Ended June 30,</u> | <u>Gross Bonded Debt</u> | <u>Less: Amounts Available in Debt Service Fund</u> | <u>Total</u> | <u>Percentage of Estimated Actual Taxable Value⁽¹⁾ of Property</u> | <u>Per Capita</u> |
|---|----------------------------------|---|--------------|---|-----------------------|
| 1997 | \$ 31,604 | \$ 436 | \$ 31,168 | 1.38% | \$697 |
| 1998 | 36,127 | 29 | 36,098 | 1.45% | \$806 |
| 1999 | 35,349 | 172 | 35,177 | 1.33% | \$785 |
| 2000 | 40,996 | 197 | 40,799 | 1.44% | \$909 |
| 2001 | 51,250 | 160 | 51,090 | 1.75% | \$1,143 |
| 2002 | 62,253 | 77 | 62,176 | 1.94% | \$1,383 |
| 2003 | 73,249 | 162 | 73,087 | 2.11% | \$1,600 |
| 2004 | 85,294 | 180 | 85,114 | 2.36% | \$1,872 |
| 2005 | 95,349 | 936 | 94,413 | 2.48% | \$2,085 |
| 2006 | 100,940 | 1,995 | 98,945 | 2.48% | \$2,182 |

SOURCE: City Annual Financial Statements

CITY OF PORTAGE, MICHIGAN
(unaudited)
Computation of Direct and Overlapping Bonded Debt
June 30, 2006

| Name of Governmental Unit | Bonds Outstanding | Percent Applicable to City | City's Share of Debt |
|---|-----------------------|----------------------------------|------------------------------|
| City of Portage: | | | |
| General Obligation Bonds | \$ 6,285,000 | 100.00% | \$ 6,285,000 |
| Building Authority Bonds | 13,380,000 | 100.00% | 13,380,000 |
| Downtown Development Authority Bonds | 5,805,000 | 100.00% | 5,805,000 |
| Local Development Finance Authority Bonds | 6,270,000 | 100.00% | 6,270,000 |
| Special Assessment Bonds | 7,415,000 | 100.00% | 7,415,000 |
| Motor Vehicle Highway Fund Bonds | 12,780,000 | 100.00% | 12,780,000 |
| Capital Improvement Bonds | 32,350,000 | 100.00% | 32,350,000 |
| Revenue Bonds | 15,600,000 | 100.00% | 15,600,000 |
| Bond Anticipation Notes | 1,055,000 | 100.00% | 1,055,000 |
| Total | <u>\$ 100,940,000</u> | | <u>\$ 100,940,000</u> |
| Portage Public Schools ⁽¹⁾ | 32,963,000 | 88.05% | 29,023,922 |
| Vicksburg Public Schools ⁽¹⁾ | 22,725,000 | 6.59% | 1,497,578 |
| Comstock Public Schools ⁽¹⁾ | 8,441,000 | 2.66% | 224,531 |
| Schoolcraft Public Schools ⁽¹⁾ | 19,158,249 | 2.22% | 425,313 |
| Kalamazoo County ⁽¹⁾ | 9,300,000 | 25.72% | 2,391,960 |
| Total | | | <u>\$ 33,563,304</u> |
| Total of City's share of debt | | | <u><u>\$ 134,503,304</u></u> |

Note:

⁽¹⁾ Overlapping jurisdictions outstanding and overlapping debt as of October 31, 2006

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the city. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City of Portage. This process recognizes that, when considering the government's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

SOURCE: Municipal Financial Consultants Incorporated

CITY OF PORTAGE, MICHIGAN

(unaudited)

Computation of Legal Debt Margin

Last Ten Fiscal Years

(expressed in thousands)

For Special Assessment Bonds

| | |
|--|-------------------|
| State Equalized Assessed Value - June 30, 2006 | \$ 2,150,123 |
| Debt limit - twelve percent of Adjusted State Equalized Assessed Value | 258,015 |
| Special Assessment Bonds | 7,415 |
| Legal debt margin | <u>\$ 250,600</u> |

| | Fiscal Year | | | | | | | | | |
|--------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|-------------------|
| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| Debt limit | \$154,895 | \$164,400 | \$176,697 | \$186,839 | \$199,963 | \$216,411 | \$225,376 | \$238,371 | \$249,144 | \$ 258,015 |
| Debt applicable to limit | 6,695 | 6,530 | 6,485 | 7,705 | 7,269 | 6,529 | 9,644 | 8,314 | 8,054 | 7,415 |
| Legal debt margin | <u>\$148,200</u> | <u>\$157,870</u> | <u>\$170,212</u> | <u>\$179,134</u> | <u>\$192,694</u> | <u>\$209,882</u> | <u>\$215,732</u> | <u>\$230,057</u> | <u>\$241,090</u> | <u>\$ 250,600</u> |

Computation of Legal Debt Margin

For General Obligation Bonds

| | |
|---|-------------------|
| State Equalized Assessed Value - June 30, 2006 | \$ 2,150,123 |
| Debt limit - ten percent of Adjusted State Equalized Assessed Value | 215,012 |
| Amount of debt applicable to debt limit: | |
| General Obligation Debt | 62,415 |
| Legal debt margin | <u>\$ 152,597</u> |

| | Fiscal Year | | | | | | | | | |
|--------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|-------------------|
| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| Debt limit | \$129,079 | \$137,000 | \$147,248 | \$155,699 | \$166,636 | \$180,343 | \$187,814 | \$198,643 | \$207,620 | \$ 215,012 |
| Debt applicable to limit | 18,652 | 17,507 | 17,909 | 24,151 | 23,979 | 33,509 | 32,588 | 37,984 | 53,365 | 62,415 |
| Legal debt margin | <u>\$110,427</u> | <u>\$119,493</u> | <u>\$129,339</u> | <u>\$131,548</u> | <u>\$142,656</u> | <u>\$146,834</u> | <u>\$155,225</u> | <u>\$160,658</u> | <u>\$154,256</u> | <u>\$ 152,597</u> |

SOURCE: Assessor (SEV)

City Annual Financial Statements (debt balances)

Note: Under state finance law (Section 4a, Act 279 or 1909 and Act 202, P.A. 1943 as amended by Act 42 P.A. 1960), the city's outstanding general obligation debt should not exceed 10 percent of adjusted State Equalized Value.

CITY OF PORTAGE, MICHIGAN

(unaudited)

Pledged Revenue Coverage

Last Ten Fiscal Years

(expressed in thousands)

| Fiscal Year Ended June 30, | Utility Revenue Bonds | | | | | | Special Assessment Bonds | | | |
|----------------------------------|-------------------------------|--------------------------------|-----------------------------|---------------------------|----------|----------|--------------------------------------|---------------------------|----------|----------|
| | Utility Service Charges | Less: Operating Expenses | Net Available Revenue | Debt Service Requirements | | | Special Assessment Collections | Debt Service Requirements | | |
| | | | | Principal | Interest | Coverage | | Principal | Interest | Coverage |
| 1997 | \$ 6,044 | \$ 4,660 | \$ 1,384 | \$ 330 | \$ 462 | 1.75 | \$ 1,112 | \$ 998 | \$ 396 | 0.80 |
| 1998 | 6,189 | 4,245 | 1,944 | 330 | 491 | 2.37 | 1,098 | 988 | 367 | 0.81 |
| 1999 | 6,806 | 4,277 | 2,529 | 380 | 501 | 2.87 | 938 | 880 | 340 | 0.77 |
| 2000 | 6,516 | 4,857 | 1,659 | 380 | 483 | 1.92 | 215 | 640 | 339 | 0.22 |
| 2001 | 7,005 | 5,033 | 1,973 | 410 | 623 | 1.91 | 481 | 756 | 362 | 0.43 |
| 2002 | 7,693 | 4,389 | 3,304 | 560 | 705 | 2.61 | 2,005 | 780 | 351 | 1.77 |
| 2003 | 7,498 | 5,295 | 2,202 | 555 | 701 | 1.75 | 1,075 | 841 | 309 | 0.93 |
| 2004 | 7,450 | 7,637 | (187) | 705 | 803 | (0.12) | 1,069 | 955 | 375 | 0.80 |
| 2005 | 7,972 | 7,158 | 814 | 555 | 650 | 0.68 | 941 | 910 | 354 | 0.74 |
| 2006 | 8,720 | 7,260 | 1,460 | 555 | 650 | 1.21 | 2,893 | 919 | 336 | 2.31 |

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Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements. Operating expenses do not include interest, depreciation, or amortization expenses.

CITY OF PORTAGE, MICHIGAN
(unaudited)
Demographic and Economic Statistics
Last Ten Fiscal Years

| Fiscal Year Ended June 30, | Population ⁽¹⁾ | Personal Income (thousands of dollars) | Per Capita Personal Income | Median Household Income ⁽²⁾ | Median Age | Education Level in Years of Schooling | School Enrollment ⁽³⁾ | Unemployment Rate ⁽⁴⁾ |
|----------------------------------|---------------------------|---|-------------------------------------|--|---------------|---|-------------------------------------|-------------------------------------|
| 1997 | 44,708 | 1,015,675 | \$ 22,718 | 46,484 | 35.8 | 14.0 | 8,904 | 2.9% |
| 1998 | 44,771 | 1,056,746 | 23,603 | 47,925 | 35.8 | 14.0 | 8,800 | 2.0% |
| 1999 | 44,834 | 1,098,830 | 24,509 | 49,410 | 35.8 | 14.0 | 8,900 | 2.3% |
| 2000 | 44,897 | 1,141,012 | 25,414 | 49,410 | 35.8 | 14.0 | 8,650 | 1.8% |
| 2001 | 44,707 | 1,178,858 | 26,369 | 49,410 | 35.8 | 14.0 | 8,600 | 3.9% |
| 2002 | 44,943 | 1,210,664 | 26,938 | 49,410 | 35.8 | 14.0 | 8,600 | 2.9% |
| 2003 | 45,679 | 1,254,894 | 27,472 | 49,410 | 35.8 | 14.0 | 8,900 | 3.9% |
| 2004 | 45,478 | 1,309,013 | 28,783 | 49,410 | 35.8 | 14.0 | 8,838 | 3.7% |
| 2005 | 45,277 | 1,341,433 | 29,627 | 59,342 | 35.8 | 14.0 | 8,962 | 4.2% |
| 2006 | 45,354 | 1,381,973 | 30,471 | 58,998 | 35.8 | 14.0 | 8,816 | 4.2% |

Notes:

⁽¹⁾ 2000 figure from 2000 US Census, other annual changes estimated

⁽²⁾ 1997 thru 1999 figures based on 1990 census, increases estimated.
2000 figure based on 2000 census
2001 thru 2006 estimated using US Census Bureau, City-Data.com

⁽³⁾ Portage Public Schools website

⁽⁴⁾ Michigan Employment Security Commission

Source: Finance Director

CITY OF PORTAGE, MICHIGAN

(unaudited)

Principal Employers

Current Year and Nine Years Ago

June 30, 2006

| Employer | 2006 | | | 1997 | | |
|---|-----------|------|---|-----------|------|---|
| | Employees | Rank | Percentage of Total City Employment | Employees | Rank | Percentage of Total City Employment |
| Pfizer , Inc. (fka Pharmacia & Upjohn, Inc) | 4,000 | 1 | 14.96 % | 4,200 | 1 | 17.16 % |
| Meijer, Inc. | 1,361 | 2 | 5.09 | 675 | 6 | 2.76 |
| Portage Public Schools | 1,121 | 3 | 4.19 | 1,193 | 4 | 4.87 |
| Stryker Corporation | 1,100 | 4 | 4.11 | 900 | 5 | 3.68 |
| State Farm Mutual Auto Insurance Co. | 600 | 5 | 2.24 | | | |
| Summit Polymers / Mueller Plastics | 550 | 6 | 2.06 | 1,200 | 3 | 4.90 |
| Target/Portage Crossings | 521 | 7 | 1.95 | | | |
| Advantage Private Nursing | 490 | 8 | 1.83 | | | |
| J C Penney Co., Inc | 300 | 9 | 1.12 | 350 | 7 | 1.43 |
| Bowers Manufacturing | 290 | 10 | 1.08 | 320 | 8 | 1.31 |
| Wise Personnel Service, Inc. | | | | 2,516 | 2 | 10.28 |
| Hudson Department Stores | | | | 300 | 9 | 1.23 |
| Harding's Galesburg Market | | | | 248 | 10 | 1.01 |
| Totals | 10,333 | | 38.65 % | 11,902 | | 48.63 % |

SOURCE: Municipal Financial Consultants Incorporated

CITY OF PORTAGE, MICHIGAN
Full-time Equivalent City Government Employees by Function/Program
Last Ten Fiscal Years

| | Fiscal Year | | | | | | | | | |
|------------------------------|-------------|------|------|------|------|------|------|------|------|------|
| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| General government | | | | | | | | | | |
| Assessor | n/a | n/a | n/a | 6 | 6 | 6 | 5 | 6 | 6 | 6 |
| Clerk | n/a | n/a | n/a | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| City Administration | n/a | n/a | n/a | 7 | 8 | 8 | 8 | 9 | 9 | 8 |
| Finance | n/a | n/a | n/a | 10 | 11 | 11 | 10 | 10 | 10 | 10 |
| Human Resources | n/a | n/a | n/a | 7 | 7 | 7 | 9 | 8 | 8 | 8 |
| Management Information Svcs. | n/a | n/a | n/a | 5 | 0 | 0 | 0 | 0 | 0 | 0 |
| Purchasing | n/a | n/a | n/a | 3 | 3 | 3 | 2 | 2 | 2 | 3 |
| Police Protection | | | | | | | | | | |
| Administrative | n/a | n/a | n/a | 4 | 4 | 4 | 4 | 4 | 4 | 4 |
| Operations | n/a | n/a | n/a | 72 | 75 | 75 | 72 | 74 | 75 | 75 |
| Fire Protection | | | | | | | | | | |
| Administrative | n/a | n/a | n/a | 4 | 4 | 4 | 4 | 4 | 4 | 4 |
| Operations | n/a | n/a | n/a | 30 | 31 | 31 | 31 | 31 | 31 | 31 |
| Streets and Equipment | n/a | n/a | n/a | 26 | 26 | 26 | 26 | 25 | 24 | 25 |
| Community Development | n/a | n/a | n/a | 18 | 19 | 18 | 18 | 18 | 18 | 18 |
| Transportation and Utilities | n/a | n/a | n/a | 8 | 9 | 10 | 9 | 9 | 9 | 9 |
| Parks and recreation | n/a | n/a | n/a | 16 | 16 | 16 | 15 | 15 | 17 | 17 |
| Senior Center | n/a | n/a | n/a | 4 | 4 | 4 | 4 | 4 | 5 | 6 |
| Total | n/a | n/a | n/a | 223 | 226 | 226 | 220 | 222 | 225 | 227 |

SOURCE: City Annual Budget

CITY OF PORTAGE, MICHIGAN
Operating Indicators by Function/Program
Last Ten Fiscal Years

| | Fiscal Year | | | | | | | | | |
|-----------------------------------|-------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| Function | | | | | | | | | | |
| Police | | | | | | | | | | |
| Arrests | 3,204 | 3,504 | 3,535 | 3,571 | 2,766 | 2,676 | 2,754 | 3,240 | 3,356 | 3,346 |
| Traffic citations | 5,639 | 6,342 | 6,353 | 7,120 | 6,605 | 5,748 | 5,542 | 5,208 | 4,533 | 3,616 |
| Calls for service (Police & Fire) | 21,030 | 20,717 | 21,102 | 22,571 | 24,102 | 20,206 | 24,358 | 24,718 | 23,913 | 24,000 |
| Fire | | | | | | | | | | |
| Number of calls answered | | | | | | | | | | |
| Fire | 526 | 526 | 530 | 520 | 136 | 148 | 122 | 118 | 117 | 134 |
| Emergency medical | 3,589 | 3,589 | 2,633 | 3,700 | 1,977 | 1,966 | 1,836 | 2,019 | 1,620 | 1,761 |
| Inspections | 1,294 | 1,284 | 1,350 | 1,300 | 1,823 | 1,804 | 1,896 | 2,143 | 3,000 | 2,971 |
| Parks and Recreation | | | | | | | | | | |
| Acreage of intensive maintenance | 186 | 186 | 190 | 190 | 191 | 196 | 197 | 200 | 203 | 207 |
| Acreage of boulevard mowing | 50 | 50 | 98 | 100 | 116 | 122 | 125 | 129 | 129 | 129 |
| Highways and streets | | | | | | | | | | |
| Miles of major streets | n/a | n/a | 59 | 60 | 70 | 70 | 71 | 71 | 71 | 71 |
| Miles of streets resurfaced | n/a | n/a | n/a | 12 | 46 | 6 | 3 | 1 | 2 | 33 |
| Miles of right-of-way mowed | n/a | n/a | n/a | 10 | 10 | 10 | 41 | 50 | 59 | 52 |
| Miles of streets swept | n/a | 3,179 | 3,870 | 4,542 | 2,662 | 3,477 | 3,017 | 4,688 | 4,947 | 5,265 |
| Water utility | | | | | | | | | | |
| Water pumped & treated | | | | | | | | | | |
| (millions of gallons) | 1,486 | 1,787 | 1,787 | 1,787 | 1,886 | 1,540 | 2,043 | 1,968 | 2,000 | 2,170 |
| Water main breaks | n/a | 28 | 19 | 34 | 25 | 24 | 35 | 28 | 23 | 33 |
| Sewer utility | | | | | | | | | | |
| Sewage transported | | | | | | | | | | |
| (millions of gallons) | n/a | 1,576 | 1,591 | 1,649 | 1,595 | 1,606 | 1,759 | 1,778 | 1,818 | 1,825 |
| Miles of sewers cleaned | n/a | 77 | 99 | 91 | 89 | 105 | 96 | 133 | 96 | 74 |
| Lift station inspections | n/a | 4,275 | 3,332 | 4,601 | 2,988 | 3,848 | 4,004 | 3,894 | 3,818 | 3,162 |

SOURCE: Department of Transportation & Utilities, Police Department, Fire Department, Department of Parks & Recreation

CITY OF PORTAGE, MICHIGAN
Capital Asset Statistics by Function
Last Ten Fiscal Years

| | | Fiscal Year | | | | | | | | | |
|-------------------------|--|-------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| | | | | | | | | | | | |
| | | | | | | | | | | | |
| Police: | | | | | | | | | | | |
| Stations | | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Vehicles | | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 32 | 32 |
| Fire: | | | | | | | | | | | |
| Stations | | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Vehicles | | 16 | 16 | 16 | 16 | 16 | 16 | 16 | 17 | 14 | 14 |
| Health and welfare | | | | | | | | | | | |
| Number of parks | | 12 | 12 | 13 | 13 | 14 | 14 | 14 | 14 | 15 | 15 |
| Acres of parks | | 706 | 706 | 712 | 712 | 712 | 712 | 721 | 724 | 724 | 724 |
| Senior citizen centers | | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Highways and streets | | | | | | | | | | | |
| Miles of Streets | | n/a | 188 | 193 | 200 | 203 | 205 | 206 | 211 | 215 | 217 |
| Water utility | | | | | | | | | | | |
| Water mains (miles) | | n/a | 193 | 198 | 205 | 209 | 217 | 220 | 226 | 233 | 237 |
| Number of fire hydrants | | n/a | 1,900 | 1,900 | 1,900 | 1,900 | 2,150 | 2,242 | 2,327 | 2,436 | 2,460 |
| Number of customers | | n/a | 11,246 | 11,415 | 11,655 | 11,888 | 12,194 | 12,533 | 12,757 | 13,025 | 13,133 |
| Sewer utility | | | | | | | | | | | |
| Sewer lines (miles) | | n/a | 194 | 199 | 202 | 205 | 209 | 213 | 218 | 221 | 224 |
| Lift stations | | n/a | 54 | 54 | 54 | 54 | 54 | 55 | 55 | 56 | 55 |
| Number of customers | | n/a | 12,606 | 12,716 | 12,960 | 13,492 | 13,638 | 13,970 | 14,161 | 14,450 | 14,662 |